

## 1 Executive Summary – APL Drought Submission

Australian Pork Limited (APL) welcomes the opportunity for comment into the Productivity Commission Inquiry into Government Drought Support. The Government requested the Productivity Commission to undertake an inquiry into government drought assistance under special consideration of the impacts of climate change in Australia.

*Pork producers value add grain, therefore drought and climate change have dramatic impacts on cost of production*

The pork industry in Australia is predominantly located in the grain belt to ensure access to constant grain supplies in order to satisfy the high demand for feedgrain. Up to 80 per cent of a pigs' diet can be grain based, amounting to about 60 per cent of total cost of production. This percentage increases in times of drought, when the grain belt suffers water shortage and diminishing grain supplies resulting in higher feedgrain prices and increasing transport cost.

*Public policy such as state government freight subsidies for grain and policy support for grain-based biofuel production further exacerbate feed grain prices*

Adverse feedgrain supply conditions are further exacerbated by state and federal government assistance for the upcoming Australian biofuel industry, which add further pressure to the feed grain market driving the price of grain up further. Significantly, from an intensive livestock industry perspective, additional demand for grain distorts local markets and artificially inflates feedgrain prices. Coupled with this, is the increasing demand for food and international policy support for biofuels, causing world grain prices to trend upward.

*Pork producers have developed a self-help approach to manage drought impacts*

Australian pork producers are severely impacted by drought; yet in the last drought, most were unable to access assistance due to exceptional circumstances (EC) eligibility criteria. Even when pork producers seek to utilize self help mechanisms such as FMD's, regulations do not recognize the various business vehicles they have established as prudent business managers such as company or trust structures. And, contrary to a commonly held belief, most farmers operate on a self-help basis in coping with drought.

On the other hand, public perception is that pork producers are not affected by drought. This is a result of the differing production systems between extensive and intensive farming and thus piggeries are beyond the visual perception of the public.

APL has been actively monitoring the impacts of the current drought on the Australian pork industry and has been advising its members on various strategies to mitigate drought impacts, particularly in the areas of feed and water management. Self-reliance through preparedness and risk management is encouraged. While drought preparedness is essential and self-reliance should be the aim of all good managers, it is essential that some form of assistance under exceptional circumstances be available as a welfare safety net.

*The pork industry has made significant investments in improving on-farm drought preparedness, risk management and self-reliance*

The pork industry has made significant investments in improving on-farm drought preparedness, risk management and self-reliance. APL and the Pork CRC collaborate to develop strategies and identify further research potential to enhance Australia's competitive position. The Pork CRC's programs target those variables, which will provide the greatest return to investment to improve the global competitiveness of the Australian pork industry. The principle focus lies on reduction of production costs via 1) reducing diet costs through increased usage of innovative feed grains; 2) improving herd feed conversion (HFC) and 3) improving sow productivity. The work of the Pork CRC is a medium to long-term investment in risk management to improve industry competitiveness.

*Drought also creates an opportunity for producers to tighten production and focus on improving farm efficiency*

Considering the severity of drought effects on pork production and given the low levels of government drought assistance received by pork producers, most pork producers operate on a self-help basis in coping with drought. There were four main drought risk reduction measures employed by farmers since the last drought. Forty six per cent (46%) of farmers provided for additional grain storage, 42% have increased water storage, 39% increased farm productivity and 30% have entered forward contracts for pigmeat.<sup>1</sup>

*APL has developed a suite of management tools and strategies to assist producers with mitigating drought effects.*

Despite the challenges a severe drought inflicts on pork production, it also creates an opportunity for producers to tighten production and focus on improving farm efficiency. To this end, APL has developed a suite of management tools and strategies to assist producers with mitigating drought effects. In addition, pork producer have access to comprehensive training, via APL's Producer Risk Management Training Program. Information on, and access to these management tools for producers is mostly web-based via APL's website. State DPI websites also provide very useful information for primary producers.

*State and federal government drought assistance can lead to perverse outcomes for pork producers*

Existing state drought assistance schemes vary in criteria, delivery method and organisations responsible for administration. Each state instigates its own drought assistance schemes, which vary in criteria and delivery method. Many of the current state drought assistance schemes are designed to support broad acre farming and include freight or grain subsidies that actually work against intensive farms by driving the price of grain up further.

*Development of EC criteria is out of step with modern day farming*

Modern day farming operations extend beyond council and state borders as companies seek to mitigate operational risk by operating in different geographic areas. Existing differences in jurisdiction and availability of support measures between states represent major impediments for farmers to access drought assistance, creating additional bureaucratic barriers and contributing to the complexity and prolonged timeframe of the assessment process. Administration of programs by different organisations also

---

<sup>1</sup> APL Producer Drought Impact Survey November 2006 to January 2007

*Pork production is a cash-flow intensive industry with low margins: “When the producers initially approached Centrelink for EC assistance, they were advised not to apply for EC payments as a pork producer because it would be very difficult to receive assistance”*

*Existing EC criteria do not address the impact of drought on intensive industries which is predominantly on costs of production rather than immediate income effects, as farmers will continue to produce to service debt given the high capital outlay*

*Intensive livestock producers such as pork producers cannot simply de-stock to reduce production cost because the re-entry costs and timeframes are prohibitive and regaining market access and contracts is difficult if not impossible*

*Existing EC income and assets*

contributes to the complexity of the process and offers significant streamlining potential.

Existing EC criteria and assessment procedures are essentially designed on the requirements of broad acre farmers and they effectively restrict pork producers’ access to drought assistance. The drought assistance framework fails to cater for the inherent differences in size and type of production systems, and risk management strategies employed by pork producers to cope with drought.

- Existing eligibility criteria for EC assistance are focussed on defined boundaries on a map, which can geographically partition farms that operate as a whole enterprise. As a result, drought assistance can contribute to reduced industry competitiveness across borders. A possible solution to counter this problem would be to grant EC assistance on enterprise level rather than geographic boundaries. This would better reflect the adverse drought impacts on the enterprise as a whole, although APL acknowledges there are problems with this approach as well. It is therefore critical that a robust assessment of this issue and the various options is undertaken to refine EC criteria.
- The impact of drought on intensive industries is predominantly on costs of production rather than immediate income effects, as farmers will continue to produce to service debt given the high capital outlay. In addition, a pork producer needs to provide housing and feed for his pigs every day, creating an ongoing cost of production stream. This stands in contrast to broad acre farmers, which are able to ride out a couple of drought years with the income of one good harvest. Intensive livestock producers such as pork producers cannot simply de-stock to reduce production cost because the re-entry costs and timeframes are prohibitive and regaining market access and contracts is difficult if not impossible.
- Cash flow intensive businesses such as piggeries need quick accessible drought assistance to sustain production through drought periods. Turnover times of drought applications from lodgement to response are too long.
- The impacts of drought and consequential high feed grain prices reach wider than just the drought EC declared areas. A drought where grain inputs for feed are grown for the industry will also adversely affect piggery operations located in an adjacent area, even if it is not directly drought affected, because of the nature of production<sup>2</sup>. However, if this area is not EC declared, producers have no access to EC drought assistance to compensate for high input costs.
- Compared to broad acre farming, pork production is very

---

<sup>2</sup> Warwick Yates & Associated, 2008, Drought Assistance Availability and Impacts on the Australian Pig Industry, prepared for Australian Pork Limited

*tests are unevenly restrictive, resulting in many otherwise viable farmers missing out on receiving assistance: pork production is very capital intensive and involves considerable quantities of on-farm assets which are sunk costs (i.e. they cannot be utilized for any other type of farming, they represent sunk costs).*

*From an industry perspective, the EC application process is complex and incredibly time consuming. The criteria are vague and some agricultural sectors 'fit' the EC application model far better than others*

capital intensive and involves considerable quantities of on-farm assets. However, as these assets can not be utilized for any other type of farming they represent sunk costs (i.e. these costs cannot be recovered in case the producer exits the industry). Therefore, existing income and assets tests are unevenly restrictive, resulting in many otherwise viable farmers missing out on receiving assistance.

- Ongoing industry consolidation has led to development of large-scale vertically integrated pork production enterprises. In practice, pork production is often part of highly diversified, mixed farming enterprises combining both cropping and livestock operations. However, pork producers operating under (specialized or mixed) company structures require an enormous amount of paperwork to be completed for receiving drought assistance. This makes Government drought assistance overwhelmingly burdensome for most large-scale producers and reduces its uptake considerably.
- On the other hand, there are large numbers of family farms, niche and 'lifestyle' pork producers in Australia. These small sized operators are often not aware of their production costs on farm, and therefore struggle with providing necessary information for an EC application. In addition, managing the associated paperwork often exceeds the skills of these small producers.

From an industry perspective, the EC application process is complex and incredibly time consuming. The criteria are vague and some agricultural sectors 'fit' the EC application model far better than others. There is also insufficient data feedback from government agencies on the numbers of producers applying or access support to enable the industry to identify areas of weakness and therefore build effective cases to the government for industry assistance and specific requirements.

APL's key recommendations for the PC's inquiry into government drought assistance in a climate change environment are:

#### State Level

1. State governments need to recognise, that intensive livestock industries can suffer from drought impacts (i.e. high feedgrain price) even though their regional areas may not be in a state declared drought area.
2. There needs to be harmonisation of drought relief packages across State jurisdictions to create a consistent system of drought assistance across all states providing the same outcomes for pig producers regardless of where production is based. Further any assistance measures provided to any one industry must not competitively disadvantage another.
3. The application process needs to be streamlined and associated paperwork simplified to reflect that farmers are

not usually skilled to complete this task.

4. Pork producers need to gain fair and equitable access to drought assistance in the areas of feedgrain freight and bedding freight.

#### Federal Level

5. There is a need for additional assistance measures to provide drought relief targeted at pork producers. Recommended assistance measures are:
  - Tax incentives for grain storage and water infrastructure developments;
  - Relief for staffing costs to retain employment critical mass and skill base; and
  - Business planning assistance to decide appropriate drought impact mitigation and cost control strategies or, in the worst case, scenarios for farm exit.
6. Government needs to recognise, that intensive livestock industries can suffer from drought impacts (i.e. high feedgrain price) even though their regional areas may not be EC declared.
7. There needs to be a better (on-line) mechanism for pork producers to undertake a preliminary assessment of their eligibility for EC drought assistance programs.
8. In the event that ongoing pork farm viability becomes a concern, pork producers need to be encouraged to seek early intervention to review their business and restructure debts/ finance to return to viability. This is best facilitated by improving stakeholder knowledge to remove existing barriers in the drought assistance application process of pork producers. This includes familiarising all pork industry support agencies in Government, the finance industry and the professional services industry, with pork specific risk management tools available via government departments and Australian Pork Limited.
9. Turnover times of drought applications from lodgement to response are too long; this creates a disadvantage for cash flow intensive businesses such as piggeries.
10. Eligibility for EC assistance needs to be granted on enterprise level rather than geographic boundaries to better reflect the adverse drought effects on the enterprise as a whole.
11. Pork producers need to better utilise existing cost of production calculators to self-assess their business viability and evaluate alternative drought mitigation strategies. APL working in concert with State Departments of Primary Industries, bank and agribusiness staff needs to improve producer understanding of the usefulness of these tools and the need for long-term viability. The same applies to better adoption and utilisation of APL's suit of risk management tools.

### Industry / Government Joint Initiative

12. Pork producers need to be subject of joint APL / Federal and State government communication programs to clarify pork producers' eligibility to drought assistance programs. This campaign is necessary to overcome the wide held industry perception that pork producers are ineligible for drought assistance programs. Communication programs, however, must be sophisticated in their design, with their development, delivery mechanism and information exchange specifically designed to target different size, form and production systems.

Likewise, efforts need to be undertaken to change public perception that pork producers do not suffer from drought conditions. This 'perception problem' is not limited to the public but also includes regulators and often the government itself.