AUSTRALIAN PORK LIMITED

Productivity Commission Inquiry into Government Drought Support

1 September 2008

Australian Pork

Table of Contents

1 Executive Summary

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.[1]

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

[1] 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"***

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 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

- 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.

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- 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[2]. However, if this area is not EC declared, producers have no access to EC drought assistance to compensate for high input costs.

[2] Warwick Yates & Associated, 2008, Drought Assistance Availability and Impacts on the Australian Pig Industry, prepared for Australian Pork Limited

Existing EC income and assets 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).

- Compared to broad acre farming, pork production is very 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 lead 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

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:

<u>State Level</u>

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.

2 Introduction

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.

APL is the national representative body for Australian pork producer and the broader pork industry. It is a producer-owned, not-for-profit company combining marketing, export development, research and innovation and policy development to assist in securing a profitable and sustainable future for the Australian pork industry. APL's members currently represent approximately 92 per cent of Australian pork production.

In 2007, APL commissioned Warwick Yates & Associates to undertake a review of State and Federal government policy and drought assistance measures available to pork producers as well as identifying those policies which impact on the competitiveness and sustainability of pork producers and the industry. More recently, we have commissioned case studies of pork producers operating under severe drought conditions and their approach to, and experience with Government drought assistance.

Supported by this industry information, APL's submission will be focussing on the key inefficiencies of current drought assistance for pork producers, covering the adverse effects of the EC declaration process, the lack of transparency in available Government assistance and the arising problems with the bureaucracy involved in the assessment process. In addition, we will provide recommendations for improvements in current drought assistance to assist the Government with adapting drought assistance to the current environment of climate change.

3 Pork Industry Profile

Australia's pigmeat production is built around an estimated 1,500 pork producers and approximately 2.6 million pigs according to ABS data as of 30 June 2007; the largest state herds are located in New South Wales and Queensland (compare Table 1)[3]. ABS data indicates that the national breeding herd in 2005-06 consisted of 302,000 sows (excluding gilts), declining by 8.6 per cent to 278,000 sows in 2006-07. Latest forecasts based on APL's Pigmeat Production Surveys indicate that in August 2008 the national breeding herd consists of approximately 265,000 sows. The average herd size in 2006-07 was 159 sows[4]. It is estimated that the Top 50 producers in Australia account for some 54 per cent of production.

Table 1 Pig Numbers in Australia per State 2003-04 to 2006-07 (in '000)[5]

State	2003-04	2004-05	2005-06	2006-07
NSW	683	653	660	741
VIC	541	545	605	536
QLD	667	696	715	669
SA	357	358	427	347
WA	270	274	277	304
TAS	14	14	16	20
NT	3	3	2	na
ACT	na	na	na	na
Australia total	2533	2543	2702	2617

[3] Australian Bureau of Statistics (ABS): Principal Agricultural Commodities 7111.0
[4] Australian Bureau of Statistics (ABS): Principal Agricultural Commodities 711.0
[5] ABS Principal Agricultural Commodities 7111.0

Source: ABS

The estimated Gross Value of Production (GVP) for Australian pork production was $944 million for the period 2006-07 decreasing to $881 million for the period 2007-08[6]. Pork currently represents approximately 2.19 per cent of total Australian farm production[7]. This figure has remained relatively consistent since 2005.

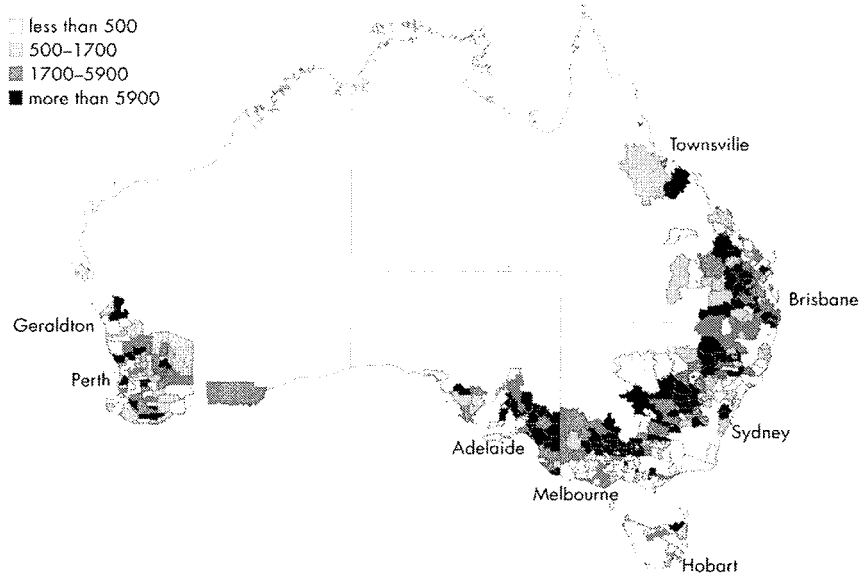
The Australian pork industry provides a significant positive impact to local, regional, state and national economies through substantial income generation and employment. In 2004, the pork production sector generated $3.2 billion in output and $967 million in value added product[8], compared to an estimated $2.9 billion in generated output, $840 million in value added product and 7,928 full time jobs when flow on effects are taken into account in 2006-07.[9]

Around 56 per cent of the 5 million pigs slaughtered in the Australian industry today are part of an integrated supply chain, which includes primary processing and production. The remaining pigs sold for slaughter are sourced either through saleyards (5 per cent), spot market or through forward and general contracts.

4 Drought Impacts on the Pork Industry

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 (compare Chart 1). In 2006-07 the pork industry consumed about 1.55 million tonnes of feedstuff, comprising approximately 1,514 kilo tonnes of grain and 41 kilo tonnes of oilseed meals. 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 result in higher feedgrain prices and increasing transport cost.

Chart 1 Geographic Location of Pork Production in Australia

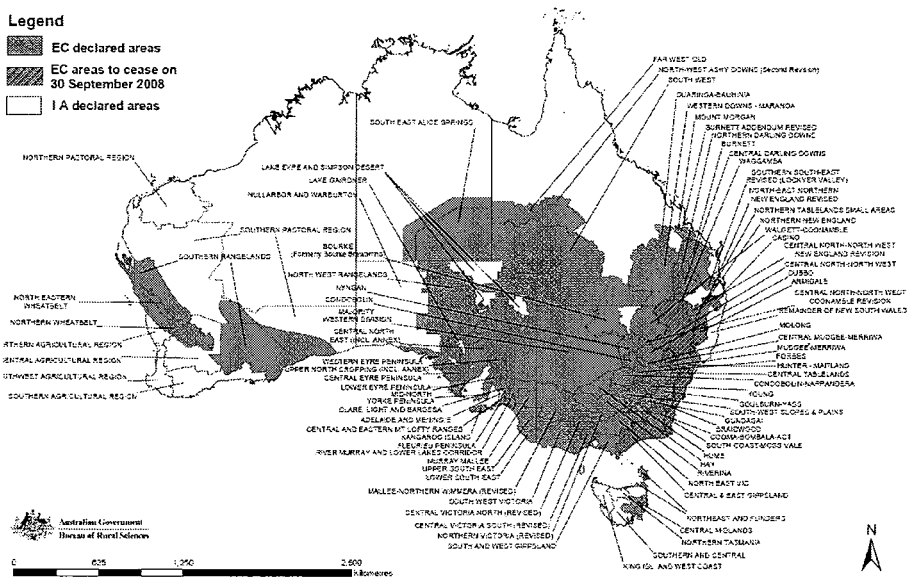


Source: Warwick Yates & Associated

[6] ABARE 2008, Australian Commodities March Quarter 08.1, outlook2008 conference publication
[7] ABARE 2008, Australian Commodities June Quarter 08.2
[8] Western Research Institute 2005, Socio-Economic Impacts of the Australian Pork Industry
[9] Western Research Institute 2008, Socio-Economic Impacts of the Australian Pork Industry - preliminary report

Chart 2 shows the current drought Exceptional Circumstances (EC) declared areas in Australia. Comparing the information in Chart 1 and Chart 2 it becomes clear that many pork producers are located in heavily drought affected areas, which are not necessarily EC declared and therefore eligible for drought assistance.

Chart 2 Drought Exceptional Circumstances Declared Areas in Australia



Source: DAFF available at http://www.daff.gov.au/agriculture-food/drought/ec

This is an important consideration since intensive livestock feeding businesses are impacted by drought irrespective of whether the operation is in an area directly affected by drought or not. If regional demand exceeds supply, grain needs to be "imported" into pork production areas. Therefore, a drought where grain production is affected will also adversely affect a piggery operation located in an adjacent area, or other regional or interstate areas, even if it is not directly drought affected, because of the nature of production.[10]

State drought policy can further exacerbate this problem by distorting market signals through support measures such as transport subsidies. For example, state assistance in NSW and QLD includes freight or grain subsidies, which actually drive the price of grain up further (i.e. the value of the subsidy is added to the already elevated market price for grain). This issue is expanded further in Section 6.1.2.

4.1 *Feed Supply and Drought: Rising Production Costs*

The intensive industries are a growing and valuable customer of the Australian grain industry. Total feed grain usage by the intensive industries has been increasing steadily since 1992-93, when 5.77 million tonnes were used, doubling to 11.5 million tonnes in 2006-07[11]. Due to the ongoing drought,

[10] Warwick Yates & Associated, 2008, Drought Assistance Availability and Impacts on the Australian Pig Industry, prepared for Australian Pork Limited

[11] abare 2007, Feedgrains – Regional demand and supply in Australia, abare report to client, April 2007

national feed grain demand in Australia has been trending lower as higher feed grain prices, lower returns to pork products, and reduced livestock numbers ration feed demand.

The pork industry's usage of feedstuff has increased from 1.57 million tonnes in 1992-93 to 1.55 million tonnes of feedstuff used in 2006-07(comprising approximately 1,514 kilo tonnes of grain and 41 kilo tonnes of oilseed meals). The declining volume of feedstuff used in pork production correlates with a reduction of the national pig herd, which declined by 5.4 per cent from 2.76 million pigs in 2002-03[12] to 2.61 million pigs in 2006-07[13].

Wheat, barley and sorghum are major feed ingredients used in pork production in Australia and can nutritionally amount up to 80 per cent of the diet. Total usage of wheat, barley and sorghum for pork production was 600 kilotons, 517 kilotons and 71 kilotons in 2006-07 respectively. The amount of grains used for stockfeed varies considerably, depending on seasonal price differences between substitute grains and location of farm.

High feed grain cost is a key competitive disadvantage for Australian pork producers[14]. As previously stated, in general feed cost amounts to almost 60 per cent of cost of production for a pig, and approximately 80 per cent of total feed costs are related to costs of grains; this share increases in times of drought.

The ongoing drought conditions across Australia are having a major impact on pork producers and are putting at risk the long-term viability of many businesses. The pork industry is faced with the double-edged sword of high grain prices due to drought conditions and increasing international demand for grain, and low pork prices, which are capped by high volumes of imported pigmeat.

Weak pork prices resulting from high volumes of cheap imported pigmeat have undermined the ability of pork producers to cope with cost increases experienced over the last years. Due to the ongoing drought, costs for feed grain in Australia (wheat, barley and sorghum) in December 2004 compared to December 2007 show a dramatic 112 per cent increase from $162 per tonne to $344 per tonne respectively[15]. As at July 2008, feed grain prices are approximately $407 per tonne wheat, $348 per tonne barley and $259 per tonne sorghum[16] (Compare Chart 3).

[12] Australian Bureau of Statistics (ABS): *Principal Agricultural Commodities* 7111.0 2002-03

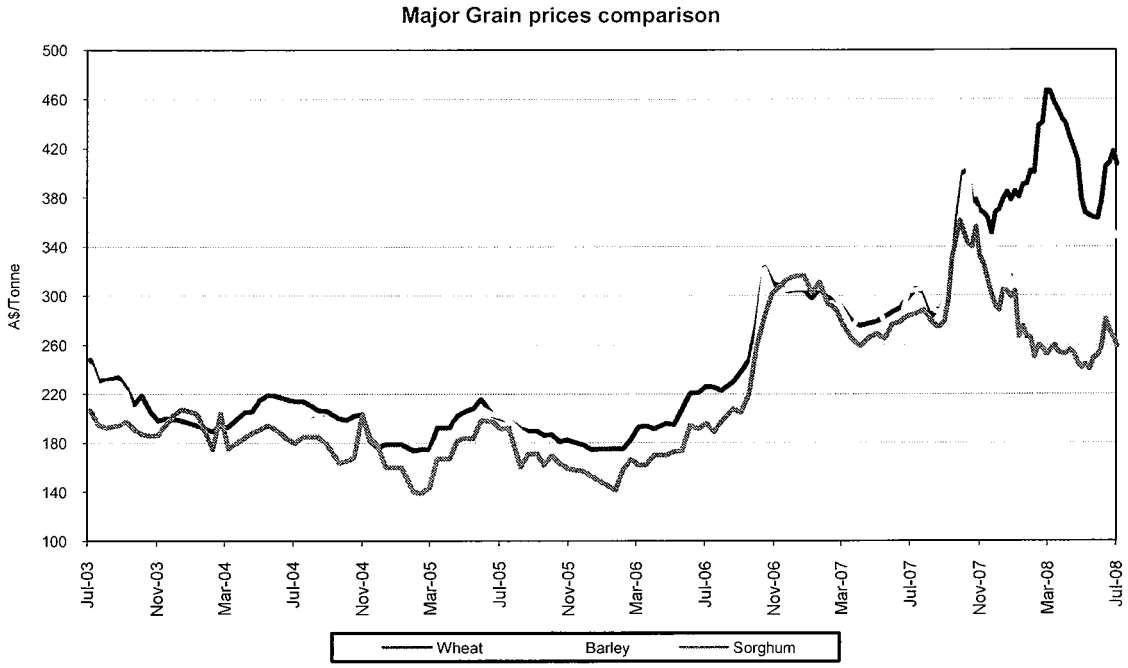
[13] Australian Bureau of Statistics (ABS): *Principal Agricultural Commodities* 7111.0 2006-07

[14] APL 2008, Submission #3 Productivity Commission Safeguards Inquiry into Import of Pigmeat 2007, page 72ff, available at: http://www.pc.gov.au/inquiry/pigmeatsafeguards/docs/submissions

[15] Source: ProFarmer

[16] Source: ProFarmer

Chart 3 Prices of Major Grains ($/tonne) July 2004-July 2008



Source: APL

4.2 *Economic and Public Policy Challenges*

Australian pork producers and primary processors are operating under extremely tense economic conditions. Comparing calendar years 2007 and 2004, producers were receiving an average of 2 per cent higher prices for baconer pigs, but paying 69 per cent more for feed grain (compare Table 2). In 2007, assuming the cost of production was approximately $2.64 per kilogram (a 17 per cent increase on 2004), at a current baconer pig price of $2.34 per kilogram, producers lost 30 cents per kilogram (approximately $22 per pig). This compares with a profit of 4 cents per kilogram in 2004 and represents a substantial deterioration in industry profitability. Recently pigmeat prices have increased. As at August 2008 APL projects producer returns are approximately $0.14 per kilogram pigmeat produced (Calculation assuming pig price is $2.74/kg, feedgrain price is $300/tonne and cost of production is $2.60/kg).

Table 2 Pig & Feed Grain Pricing, Cost of Production & Profit estimates, 2004 and 2007

Time Period (Calendar Year)	Average Baconer Pig Price*	Average Feed Grain**	Cost of Production***	Net Result (Profit)
2004	$2.29/kg	$184/t	2.25/kg	0.04/kg
2007	$2.34/kg	$311/t	2.64/kg	-0.30/kg
Percentage change	+2.18%	+69.0%	+17.3%	

Source APL

* NOTE: Pig prices are Eastern seaboard, (VIC, QLD, NSW, SA)

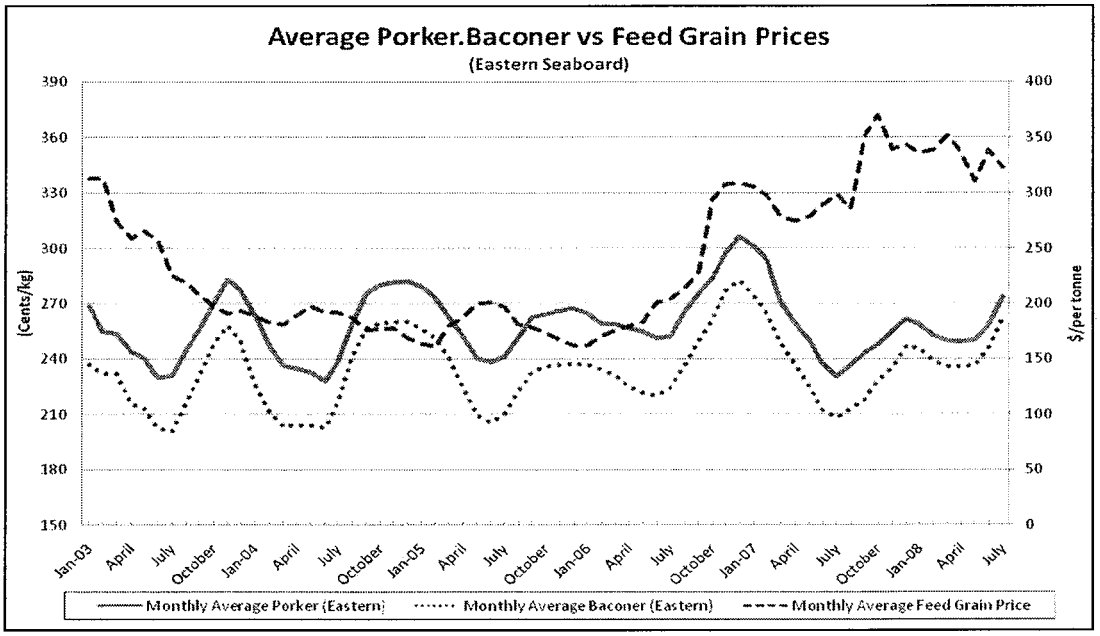
** Yearly average taken from monthly averages of total feed grain, consisting of wheat, barley and sorghum.

*** Assumes COP to be $2.60/kg with feed grain prices at $300/t. Assumes COP to be $3.00/kg with feed grain prices at $400/t

It is estimated that for every $10 per tonne increase in feedgrain price, cost of production (COP) will increase by an average of 3 cent per kilogram carcase weight[17]. This correlation demonstrates the significant effect of drought conditions on the economics of pork production. In general, as long as higher feed and total costs can be passed on, pork producers can ride out droughts. However, high levels of imports of cheap subsidised pigmeat have clearly prevented this from happening and effectively created a price cap.

As of August 2008 grain prices remain high and ABARE expects little relief over the next 12 months; volumes of pigmeat imports also remain high, limiting the ability of Australian pork producers to recover their production costs. Chart 4 below outlines development of pigmeat prices and feedgrain prices since January 2003.

Chart 4 Average Price for Pig Meat vs. Feed Grain Price January 2003 - July 2008



Source: APL

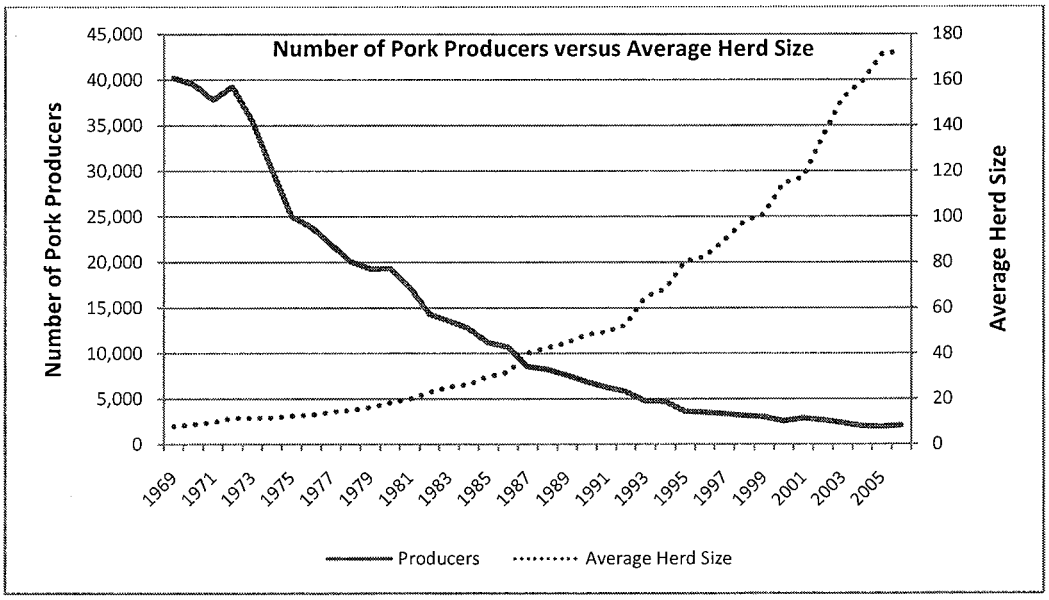
In addition to rising input costs, pork producers are facing significant economic challenges from other areas. To comply with the revised Model Code of Practice for the Welfare of Animals (the Pig), approved by Primary Industries Ministerial Council (PIMC) in April 2007, producers face mandatory changes to the way they run their businesses leading to a significant increase in costs, which are unlikely to be recovered from the consumer. Farms that have recently made major investments for example in infrastructure or site development have higher debt levels and are most financially vulnerable. Current industry conditions, which could not be foreseen when APL agreed to the revised Code on behalf of Australian pork farmers, have severely exacerbated this vulnerability.

Additional pressure on pork producers results from compliance with Government planning regulations which often create costly impediments for piggery development such as mandatory buffer zones for odour and noise; and the Environmental Protection Regulation, leading to additional impediments and payment of annual fees. These EPA fees show considerable variation when compared on state-by-state basis, adding to the high cost of production and creating a competitive disadvantage for producers in states with high environmental fees.

[17] APL, Submission #1 Productivity Commission Safeguards Inquiry into Import of Pigmeat 2007, p 42, available at http://www.pc.gov.au/projects/inquiry/pigmeatsafeguards/docs/submissions

Because of the ongoing cost squeeze driven by impacts of the current drought and without a corresponding increase in the price of pork and pork products, many large and mid-size producers are destocking their breeding herds and closing sites in an attempt to remain viable; many smaller producers are simply leaving the industry. In 2006 there was an estimated 1,500 producers compared to 1,923 in 2005. The decline in the number of pork producers is an ongoing trend that started in the 1970's (compare Chart 5).

Chart 5 Number of Pork Producers and Average Herd Size in Australia from 1969 - 2006



Source: APL & ABS

The ongoing industry consolidation and rationalisation has seen the less resilient pork producers leave the industry; and the remaining pork producers making significant changes to improve productivity and control costs within their operations. These remaining producers actively use destocking and restocking procedures and cost of production based decision-making tools to manage their business risks. Other risk management tools such as Farm Management Deposits (FMD's) are actively used to manage cash flow variations. Risk management tools and their application are expanded further in Section 8.

4.3 *The Role of Biofuels*

Adverse feedgrain supply conditions are exacerbated by state and federal government assistance for the upcoming Australian biofuel industry, which will add further pressure to the feed grain market. Total Federal government financial assistance amounted to $95 million in 2006-07. Mandating ethanol content in fuel and encouraging grain-based biofuel production diverts grain from human food production, creates a food versus fuel relationship and eventually increases food prices for consumers.

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. World grain prices are predicted to have reached a new benchmark; currently world grain prices are up to 200 per cent above long-term averages. This is a significant threat for the viability of highly grain dependant intensive livestock industries such as the Australian pork industry.

The role of ethanol production in these price increases is significant with the International Food Policy Research Institute in Washington stating that it is responsible for between 25-33 per cent of

global commodity price increases during 2000-2006[18]. Moreover, according to an unpublished World Bank report "the basket of food prices examined in the study rose by 140% between 2002 and this February [2008]" [19]. This report estimates that higher energy and fertiliser prices accounted for an increase of only 15 per cent, while biofuels have been responsible for a 75 per cent jump over that period.

In Australia, the major biofuels policy at the national level is a 350 million litre target by 2010, i.e. one per cent of current fuel production. Meeting this target with currently available technology is estimated to consume approximately 737,000 tonnes of grain (assuming 80 per cent of that biofuel output is grains based and the ethanol yield is 380 litre/tonne[20]). This will distort grain prices in local regional areas and significantly increase the likelihood of importing feed grains into the east coast. Industries that utilise and value-add grain and oil seeds such as the Australian pork industry will face unfair competition for grain, which will add to rising input costs and further reduce their international and domestic competitiveness.

APL recognises that biofuels are an essential component of Australia's future energy mix, but the mandating of biofuels in the transport fuel system via State Government's policy must be rejected since it creates more problems than it solves. APL is concerned economic resources will be expended on a second-rate solution that will not efficiently achieve the objectives of reducing greenhouse gas emissions and improving Australia's energy security. Resources should be directed to solutions such as second-generation biofuels, which reduce market distortion and allow sustainable energy production that can coexist with human food production.

5 Current Usage of Drought Assistance Programs by Australian Pork Producers

APL surveyed Australian pork producers between November 2006 and January 2007 to establish how pork producers were managing their ongoing viability in the current drought circumstances[21]. The response rate to the survey was relatively low and therefore the findings must be interpreted as trend data only; however, some of the indicative trends are very insightful as to how pork farmers are managing the severity of the current drought.

5.1 *Results of the 2006-07 APL Producer Drought Impact Survey*

1. **State & herd size** – For the farmers surveyed, the majority of growing heard production is located in NSW (28%), SA (27%) and QLD (26%). A high proportion of farms with 0-50 sows had their herd production in SA (46%). Large farms with over 1,000 sows had a high percentage of production in QLD (46%).
2. **Reliance on pork production** – Eighty per cent (80%) of respondents rely on pork production for between 50% and 100% of their income. There appeared to be a relationship between the size of the pig farm and the reliance on pork for income; larger farms rely more heavily on pork production for income (overall) than smaller farms.
3. **Average feed cost per tonne** – Average feed cost per tonne at 30 October 2006 was $319 with a standard deviation of $72. A higher proportion of the smallest farms, compared with larger farms, were able to access cheaper feed (less than $249 per tonne), although the majority of all sized farms were paying $300 per tonne or more. Average feed cost for the

[18] IFPRI, High Food Prices - The What, Who, and How of Proposed Policy Actions, available at http://www.ifpri.org/pubs/ib/foodprices.asp

[19] Eccleston, P., 2008, Biofuels cause 75pc increase in food prices, report says, available at http://www.telegraph.co.uk/earth/main.jhtml?xml=/earth/2008/07/04/eabiofuel104.xml

[20] MLA, March 2008, Review of Grain-based Ethanol Production - Effects on Australian Livestock Industries

[21] APL Producer Drought Impact Survey November 2006 to January 2007

financial year (ending 30 June 2006) was $291 with a standard deviation of $125. Prices from 30 June 2006 to October 2006 had increased $28 per tonne (on average).

4. **Grain purchased during October 2006** – The majority (55%) of farmers had purchased grain in October 2006, although a large proportion 45% had not. Small farms (with 0-50 sows) are substantially less likely to have purchased grain during October 2006. Most farmers purchased wheat, barley or sorghum. On average, farmers surveyed, purchased 122 tonnes of Barley (at an average price of $279 including transport) and 239 tonnes of wheat (at an average price of $292 per tonne).
5. **Grain sourcing areas drought affected** – Two thirds of farmers are sourcing their grain from areas that are also drought declared, a further 18% do not know.
6. **Method of feed sourcing** – Purchasing grain for on-farm mixing (48% of farmers) was slightly more popular than purchasing manufactured feed (40%). Only 12% of farmers used a combination of both (mostly larger farmers).
7. **Grain purchasing contracts** – The majority of farmers (73%) do not have a binding, written grain purchasing contract in place. Twelve per cent (12%) have written contracts with a grain grower, a further 12% with a grain agent. Eight per cent (8%) have a written contract with AWB.
8. **Grain bought on-the-spot (in market)** - On average, 43% of grain purchased is bought on-the-spot (in the market); almost three quarters of farmers buy some grain this way.
9. **Grain usually bought at harvest** – On average 47% of grain is bought at harvest, but this varies greatly across farms.
10. **Grain storage arrangements** - While most farmers had grain storage arrangements in place, a quarter did not, and this trend was consistent across all farm sizes. Storage owned by the farmer (65%) was by far a more popular arrangement than contracted storage (4%) or a combination of both (5%).

    The most common storage capacity for farmers was between 100 and 399 tonnes (40% of farmers). A further 30% had over 1,000 tonnes available.

    While small farms tended to store less grain overall, a large proportion (44%) of large farms (with greater than 1,000 sows) also only had a small amount of grain stored.

11. **Amount of grain used that is produced on-farm** – Overall, 51% of farmers produce half to all of their grain on farm. Smaller farms were substantially more likely to produce their own feed grain than were larger farms. On average 48% is produced on-farm.
12. **Percentage of total grain used that is purchased** – On average 70% of grain used is purchased by farmers.
13. **Mixing feed on-farm** – 73% of farmers mix their own feed on farm. This percentage is approximately the same for all sized farms except for farms with 51-200 sows, of which 79% mix their feed.
14. **Per cent of feed purchased** – On average, 66% of farmers feed is purchased.
15. **Transport costs per tonne** - Prices paid for transport were variable. The average price paid per tonne for grain from the local area was $16 per tonne. Transport from the closest port was on average $11 per tonne more at $27. Transport costs (on average) have increased between $1 and $2 per tonne from October 2005 to October 2006.
16. **Impact of drought on production costs** - The drought has impacted the cost of production for almost all farmers (92%). The two most commonly raised issues by participants related to the effects of drought on increased price of grain/feed and the need to offset these costs with better meat prices.
17. **Drought affected farms** - Eighty two per cent (82%) of farmers report that their property is drought affected and 68% of farmers' production is in a state drought declared or EC area. The larger farms are more likely to have production in drought declared areas than small

farms but the majority of all sized farms are within these areas. Half of surveyed farmers (50%) consider themselves ineligible for either state or federal assistance.

18. **De-stocking** – Most farmers (89%) did not de-stock during the last drought. While smaller farms were more likely to de-stock than larger farms, the majority of even the smaller, did not. The situation for this drought is unchanged with 89% of farmers not considering de-stocking (11% were considering this option in Oct – Dec 2006).
19. **Reduction in breeding herd** – Fifteen per cent (15%) of farmers surveyed report that they will be reducing their breeding herd. The average intended reduction was by 45%.
20. **Industry exits** - Twelve per cent (12%) of farmers were considering leaving the industry at the time they were surveyed. The proportion of farmers considering exiting the industry was substantially higher amongst small farms (36%).
21. **Drought risk-reduction measures** – 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.
22. **Eligibility for drought assistance** - A large proportion (32%) of farmers do not know whether they are eligible for drought assistance. Half (50%) consider themselves ineligible for either state or federal assistance. Only 17% believe they are eligible for either State or Federal assistance. These trends were consistent across all farm sizes.
23. **Farms currently receiving drought assistance** – Only 14% of farmers are receiving either State or Federal drought assistance.
24. **Farm Management Deposits** – Nineteen per cent (19%) of farmers surveyed have money in FMDs. Of these, 22% drew down a portion of their FMDs as a result of the drought impact.
25. **Extending debt facilities as a result of drought impact** - Fifty seven per cent (57%) of farmers surveyed had to extend their debt facilities in order to keep their business viable, 38% needed to borrow in order to cover living expenses.

5.2 *How Do Pork Farmers Manage Drought?*

In late 2007, APL commissioned Warwick Yates & Associates to undertake a review of state and federal government policy and drought assistance measures available to producers and/or which impact on the competitiveness and sustainability of pork producers and the industry. The final report (2008) is attached to this submission (Attachment D). The key issues and findings of this review, which confirms the trends reported in APL's Producer Drought Impact Survey 2007, include:

1. Contrary to a commonly held belief, most farmers operate on a self-help basis in coping with drought. Half (50%) consider themselves ineligible for either state or federal assistance. Only 17% believe they are eligible for either State or Federal assistance.
2. Only 14% of farmers are receiving either State or Federal drought assistance.
3. Twelve per cent (12%) of farmers were considering leaving the industry at the time they were surveyed. The proportion of farmers considering exiting the industry was substantially higher amongst small farms (36%).
4. Fifty seven per cent (57%) of farmers surveyed had to extend their debt facilities in order to keep their business viable, 38% needed to borrow in order to cover living expenses.
5. 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.[22]

[22] APL Producer Drought Impact Survey November 2006 to January 2007

6. Pork farmers seek to mitigate drought impacts at the enterprise level and do not rely on State or Federal Government drought assistance programs. Those utilizing the programs are likely to be those non-viable small producers seeking to exit the industry.
7. 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. FMD's only apply to individuals and are primarily used for tax purposes.
8. The impact 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. 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.
9. High cash flow enterprises such as piggeries accumulate high on-farm assets, which often are above current threshold of income and assets tests for drought assistance. This effectively prevents drought affected pork enterprises from receiving assistance, even if they were eligible.
10. The impacts of drought and consequential high feed grain prices reach wider than just the drought EC declared areas. However, producers outside EC declared areas are not eligible for Government EC assistance.
11. As many pork producers lie outside the currently EC declared areas, their ability to access EC assistance is almost solely dependent on an industry application. This is possible, but in practice extremely difficult.
12. Modern day farming operations extend beyond council and state borders as companies seek to mitigate operational risk by operating in different geographic areas. Differences in jurisdiction and availability of support measures between states create additional bureaucratic barriers and contribute to the duration of the assessment process.
13. Administration of programs by different organisations, both on a State and Federal level further complicates the application process and creates enormous amounts of paperwork.
14. Certain forms of State assistance such as transport subsidies create perverse outcomes for pork producers. Current fodder and feed grain freight subsidies only serve to increase the price of grain to the extent of the freight subsidy conferring little or no benefit to pork producers in drought areas but conferring benefit to sheep and beef producers with freight subsidy access to scarce grain supplies.
15. Additional assistance measures for pork producers are necessary in the areas of:
    a. Tax incentives for on-farm grain storage and water infrastructure developments
    b. Relief for staffing costs to retain employment critical mass and skill base
    c. Pork industry specific business planning assistance

6 Industry Concerns Regarding Drought Assistance

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. Most pork producers do not see themselves as being eligible for drought assistance programs with approximately 5 per cent of producers accessing some component of the drought assistance suite of programs offered by federal and state governments[23]. On the other hand, public perception is that pork producers are not affected by drought. This is a result of piggeries traditionally being located outside of populated areas and thus beyond the visual perception of the public. In contrast, it is well understood by the public that other Australian agricultural sectors such as dairy, grain and horticulture are heavily drought affected and need Government assistance.

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 also encouraged and is explored further in Section 8. 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.

For use in this submission, APL has commissioned case studies of drought affected pork producers. We have selected five producers, four from South Australia and one from Victoria; two that managed to stay in the industry (labelled Farm 1 & 2) and another three that have decided to leave the industry as a result of the ongoing drought conditions (labelled Farm 3, 4 & 5)[24]. Due to time constraints, we were unable to commission additional studies from NSW and QLD, but we believe that the concerns raised by producers in these case studies are representative of the industry.

Selected information will be referenced in the following section to support the industry's concerns regarding Government drought assistance as outlined in this section. The full-length case studies are included in Attachment A.

6.1 *State Government Assistance*

6.1.1 Inequitable Access to Drought Assistance Measures

It is the role of State Governments to declare drought areas based on individual state criteria. While state drought declaration is required for an EC application, EC approval is totally separate to the State schemes. Each state also instigates their own drought assistance schemes, which vary in criteria, delivery method and organisations responsible for administration. At present there is a lack of harmonisation of drought relief packages across state jurisdictions and an inequity of the outcomes, which adversely affect the competitiveness of some industries such as the pork industry and that this impact pervades state borders. Further, any assistance measures provided to any one industry must not competitively disadvantage another. Table 3 outlines eligibility for pork producers under state drought assistance schemes. For full information on available drought assistance measures, please refer to Attachment C.

[23] Warwick Yates & Associated, 2008, Drought Assistance Availability and Impacts on the Australian Pig Industry, prepared for Australian Pork Limited

[24] For detailed information on selection of farms refer to Attachment A

Table 3 Eligibility for Pork Producers under State Drought Assistance Schemes

State	Eligibility for Pork Producers
NSW	➢ Exceptional Circumstances if you are in an EC declared area ➢ Business Drought Assistance ➢ Drought Household Payments ➢ Drought Proofing Assistance ➢ Free range pork farmers may be eligible for transport subsidies
QLD	➢ Exceptional Circumstances if you are in an EC declared area ➢ Drought Carry-on Finance ➢ Drought Relief Assistance Scheme ➢ Transport Concessions
VIC	➢ Exceptional Circumstances if you are in an EC declared area ➢ 50% concession on the municipal rates
SA	➢ Exceptional Circumstances if you are in an EC declared area South Australia currently has no state drought assistance scheme
WA	➢ Exceptional Circumstances if you are in an EC declared area Western Australia currently has no state drought assistance scheme
TAS	➢ Exceptional Circumstances if you are in an EC declared area Tasmania currently has no state drought assistance scheme

Source: Warwick Yates & Associated

Identified issues

➢ As many pork producers lie outside the currently EC declared areas, their ability to access EC assistance is almost solely dependent on an industry application. While it is technically feasible for an industry to put in application, it is, in practice, extremely difficult.

➢ Modern day farming operations extend beyond council and state borders as companies seek to mitigate operational risk by operating in different geographic areas. This risk management tool will become increasingly important as the industry continues to rationalise and consolidate. However, 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. There needs to be harmonisation of drought relief packages across state jurisdictions.

➢ Administration of programs by different organisations, both on a state and federal level further complicates the application process and creates enormous amounts of paperwork. This also contributes to the prolonged timeframe of drought assessment and offers significant streamlining potential.

The piggery owners were well informed of available assistance measures and eligibility criteria through the owner/wife's past employment as a regional Rural Counsellor, through regular internet searchers of PIRSA website and through receiving regular electronic updates/emails from drought information sites.

The owners submitted an initial application for EC assistance, which included having to provide past five years financial performance data. Having had prior experience within a regional Rural Counsellor role gave the owner (wife) the confidence to develop and submit their application. This was submitted and then took another six months before the business was advised it would not be eligible for assistance! A further claim was then submitted and approved.

The owner's experience with this process is that the eligibility criteria were far too onerous for the average primary producer to complete. Too many questions on the application form were repetitive; the forms could be made simpler, and were not designed to encourage completion by farmers (who are not usually skilled at this task). This business was surprised they failed to get approval first time, despite the owner being skilled and trained at facilitating this process.

The turn-around time from lodgement of application to response is far too long.

The owners do not believe pig producers are being unfairly disadvantaged when applying for assistance; it is apparently a very complicated exercise for all producers, regardless of their farming enterprise, and could be made simpler. Their comment has been ..."they don't make it easy for someone to apply" (and that's coming from someone comfortable with completing paperwork, familiar with the eligibility criteria, the overall process and with access to a full and comprehensive set of farm financial information). (Case Study Farm 2, page 47)

6.1.2 Perverse Subsidy Outcomes

Some forms of state based drought assistance unintentionally create perverse outcomes for intensive livestock producers by artificially inflating market prices.

Identified Issue

- State assistance in NSW and QLD includes freight or grain subsidies that actually drive the price of grain up further (i.e. the value of the subsidy is added to the already elevated market price for grain). Freight subsidies create little or no benefit to pork producers in drought areas compared with significant benefits for sheep and beef producers. In fact, these subsidies can create perverse outcomes which extend across state borders to producer enterprises that are not directly affected by drought.
- State governments' 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 in a state declared drought area.
- 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.

The owners have noted that eastern states (NSW) are eligible for grain freight subsidies on grain grown and carted from SA, while SA pork farmers have to compete on the open market to buy the same grain, at an inflated price, for use within their EC-declared piggery areas, which is not entitled to the same subsidies. This is an inequality across states, across EC-boundaries within the same state, and across the same industry (the dairy industry is similarly affected). (Case Study Farm 1, page 45)

6.2 *Federal Government EC Assistance*

In 2006, the Australian Government announced a new drought policy package to assist farmers in areas severely affected by drought. These measures recognised the unprecedented severity, length and extent of the current drought, and its impact on rural and regional communities, the environment, and the broader Australian economy. Because of the ongoing drought conditions, the Federal Government in September 2007 announced a further $714 million in drought assistance measures "to support farmers through the worst drought in our nation's history."

6.2.1 Inefficiency of EC Assistance for Pork Producers

While the extension to EC assistance announced on 25 November 2007 and the new drought package were welcomed by the pork industry, the general EC criteria and assessment procedures are essentially designed on the requirements of broad acre farmers. They fail to cater for the inherent differences in production systems and management strategies employed by intensive industries to cope with drought.

Identified Issues

- The impact 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. For example, broad acre farmers are able to ride out a couple of drought years with the income of one good harvest. On the other hand, a pork producer needs to provide housing and feed for his pigs every day, creating an ongoing cost of production stream.
- 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.

It was impossible to recover increases in production costs in 2007-2008. In the past when the COP has been higher than average, it was either offset by higher pig prices and/or we have taken our pigs to a heavier weight. This led to increased sale price per pig and increased the profit per pig because the COP per pig were spread over a higher weight (most of the COP is associated with the first half of a pig's life). In 2007-08, the producers were unable to take their pigs to the higher weight; no one wanted them because of the volume and price of the imported pork. Penalty rates for heavier animals were no different initially to cull breeder prices.

Average feed price in 2005-2006 was about $340/tonne (GST and freight included). From that time until the decision to destock in September 2007, feed costs had nearly doubled, while pig prices had dropped significantly. In 2007-08 average feed cost was $628/tonne (GST and freight included). Grain has been bought at market prices between $300-$400/tonne. Associated freight costs were about $3500-$4500/month. (Case Study Farm 5, page 52)

In 2005/06, total piggery feed costs were $811k, wages $100k and freight $32k. Two years later (2007/08), these major production costs had risen to $1.01M, $120k and $53k respectively. Feed grain costs increased from20 05/06 average $300/t to 2007/08 $408/t. Average grower diet costs increased from 2005/06 average $300/t to 2007/08 $457/t. (Case Study Farm 2, page 46)

In 2004, total feed costs were $110.7k, pig sales returned $255.4k and the piggery made a $144k profit. In 2006, total annual feed costs had increased to $120k. In 2008, total feed costs are $216k, pig sales $209k, leaving a net loss -$7.5k. In 2006, average diet costs were $272/t; in 2008 that has become $501/t (average of weaner, pork and bacon diets). (Case Study Farm 3, page 48)

6.2.2 Inequitable Access to EC Assistance Measures

It is the role of State Governments to declare drought areas based on individual state criteria. While state drought declaration is required for an EC application, EC approval is totally separate to the

state schemes. Each state also instigates its own drought assistance schemes, which vary in criteria, delivery method and organisations responsible for administration.

Identified Issues

- As many pork producers lie outside the currently EC declared areas, their ability to access EC assistance is almost solely dependent on an industry application. While it is technically feasible for an industry to put in application, it is, in practice, extremely difficult.
- Differences in jurisdiction and availability of support measures between states represent major impediments for farmers to access drought assistance.
- Modern day farming operations extend beyond council and state borders as companies seek to mitigate operational risk by operating in different geographic areas. This creates additional bureaucratic barriers and contributes to the duration of the assessment process.
- Administration of programs by different organisations, both on a State and Federal level, complicates the application process and creates enormous amounts of paperwork. This contributes to the prolonged timeframe of drought assessment.
- Turnover times of drought applications from lodgement to response are too long. Cash flow intensive businesses such as piggeries need quick accessible drought assistance to sustain production through drought periods.

The owners submitted an initial application for EC assistance, which included having to provide past five (5) years financial performance data. Having had prior experience within a regional Rural Counsellor role gave the owner (wife) the confidence to develop and submit their application. This was submitted and then took another six (6) months before the business was (originally) advised it would not be eligible for assistance! A further claim was then submitted and approved. (Case Study Farm 2, page 47)

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. Despite this advice, an application for was launched. The producers stated that the application process was appallingly difficult and would not have been manageable without serious assistance from two different accounting firms. Centrelink subsidy for drought proofing the farm was received. The key impediment for the application in terms of paperwork was that the farm business operates as a Trust with three directors. (Case Study Farm 5, page 54)

6.2.3 Drought Effects Outside of EC Declared Areas

Drought affected intensive livestock producers are eligible for EC assistance if their property falls within an EC declared area. However, if they are located in an adjacent area (even other regional areas) which is not drought declared, they still are affected by high grain prices but without access to EC drought assistance.

Identified Issues

- 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[25]. If regional demand exceeds supply, grain needs to be "imported" into pork production areas. However, producer outside EC declared areas are not eligible for Government EC assistance.

The owners believe there should be greater appreciation of the situation that while some pork farmers may be farming their pigs in an area not EC-declared, they may be forced to purchase their feed grain supplies

[25] Warwick Yates & Associated, 2008, Drought Assistance Availability and Impacts on the Australian Pig Industry, prepared for Australian Pork Limited

which has been grown in another region that has been EC-declared. Therefore, they are forced to pay the high grain prices but can not attract the assistance. (Case Study Farm 1, page 45)

6.2.4 Unevenly Restricting Assets Testing

Compared to broad acre farming, pork production is very capital intensive and involves considerable values 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.

Identified Issues

- High cash flow enterprises such as piggeries accumulate high on-farm assets, which often are above current threshold of income and assets tests for drought assistance. This effectively prevents drought affected pork enterprises from receiving assistance, even if they were eligible.
- Existing assets testing for assessing eligibility for short-term drought assistance does not properly reflect long-term viability of cash flow intensive farming businesses.
- High volumes of on-farm assets also effectively restrict pork producers' access to farm exit grants, which also require an assets test. According to Centrelink, there are few applications for farm exit grants across Australia (most are horticultural producers with water supply problems) and currently no pork producers have made application for farm exit grants either in the pre-assessment phase or in the post sale phase of exit grant applications[26].

The piggery and associated infrastructure were worth (prior to 2007) in excess of $1.8million. Investments were made to comply with the new Code of Practice. Sheds have been well-maintained and investments had been made when required e.g. the second gestation shed had its roof replaced 2 months before the decision de de-stock. Currently, in this present financial climate they are close to worthless.

Land in the area has improved considerably in value. However, the land the piggery is situated on could not be used for other farming activities because of the presence of sheds etc and it is not adaptable to other farming practices. (Case Study Farm 5, page 52)

6.2.5 EC Assistance Eligibility Criteria

Ongoing industry consolidation has lead to development of large-scale vertically integrated pork production enterprises (compare Section 4 Chart 5). It is estimated that the Top 50 producers in Australia account for some 45 per cent of production. QAF, the number one producer in Australia, alone is responsible for almost 14 per cent of production in terms of sow numbers.

In practice, pork production is often part of highly diversified, mixed farming enterprises combining both cropping and livestock operations. These large commercial operations often involve company and trust structures and attract a completely new set of bureaucratic issues with drought assistance eligibility testing.

Identified Issues

- Per definition, EC assistance provides support for farm business owners considered profitable in the long term but who, due to exceptional circumstances, are experiencing financial difficulties. The level of support they are entitled to receive is determined on an individual basis, i.e. a full assessment is necessary for every director of a company. This creates an enormous amount of paperwork and effectively prevents otherwise long-term viable companies from applying and consequently receiving drought assistance.
- 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

[26] Warwick Yates & Associated, 2008, Drought Assistance Availability and Impacts on the Australian Pig Industry, prepared for Australian Pork Limited

drought assistance overwhelmingly burdensome for most large-scale producers and reduces its uptake considerably.

➢ In practice, most large-scale commercial operators run highly diversified enterprises. In times of drought, losses resulting from pork production can be compensated by more profitable sections of the enterprise. In addition, drought assistance often is only sought for certain sectors of diversified enterprises where the application process is less painful in terms of paperwork and bureaucracy. This for example applies for cropping, but certainly not for pork production.

This 400 sow farrower-to-finish piggery in Victoria is part of a multi-enterprise operation in Victoria. The 5000 acre broad acre cropping operation includes about 3000 acre under crop, 3000 head cross-bred ewe flock and 40 cattle. The piggery operated for 49 years until it was destocked and closed in 2008. The piggery operated for 49 years until it was destocked and closed in 2008. The key impediment for the application in terms of paperwork was that the farm business operates as a Trust with three directors. (Case Study farm 5, page 51)

The producers were also interested in other available assistance i.e. funds for financial advice and training, as this was initially brought to their attention by Centrelink. The producers' idea was to access this form of funding to invest in specialised whole farm planning software for on-farm use. However, according to Centrelink, this specific assistance measure would be granted only to access professional training; do-it-your-self measures would not be eligible for funding. This left the producers very disappointed because this software for about $1,200 to $1,500 would be of great assistance and a very efficient use of existing on-farm economic know-how.

The husband's application for receiving a Productivity Improvement Grant of $3,000 was rejected because of eligibility criteria. This assistance is only available once per family and was already granted to his father, who is also one of the three directors of the Trust. Even though both, father and son, have contributed land in their name to the Trust and the son has been farming his land for over 35 years he was denied assistance. This left him disillusioned with government assistance.

Even though the piggery was closed producers were not eligible for a Farm Exit Program. (Case Study Farm 5, page 54)

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.

Identified Issues

➢ Small-scale operators often combine excellent pork production skills with a lack of basic economic knowledge of pork production. This leads to a situation where producers are not aware of their long-term viability.

➢ These small-scale family, niche or lifestyle operators are a large component of Australia's pork industry in terms of producer numbers (it is estimated around 90 per cent of pork producers run piggeries with less than 500 sows). However, in terms of production, they represent only a small share of an estimated 20 per cent of total pigmeat produced in Australia.

➢ The requirements for an EC application often exceed the abilities of small family operators to get along with the necessary paperwork. In addition, existing thresholds for off-farm income prevent many operators from receiving assistance.

The owner's experience with this process is that the eligibility criteria were far too onerous for the average primary producer to complete. Too many questions on the application form were repetitive; the forms could be made simpler, and were not designed to encourage completion by farmers (who are not usually skilled at this task). This business was surprised they failed to get approval first time, despite the owner being skilled and trained at facilitating this process. (Case Study Farm 2, page 47)

6.2.6 Industry Uptake of EC Assistance

While exceptional circumstance provisions are essential in catastrophic events with long-term impacts the declaration process and assessment process with the number of players involved does not mesh well with the timing and cost imperatives of high cash flow enterprises such as the Australian pork industry[27]. Consequently, the uptake of Government drought assistance is very low. Table 4 compares EC payments to Australian pork producers in 2006-07 and 2007-08.

Table 4 Exceptional Circumstance Relief Payments to Australian Pork Producers 2006-07 and 2007-08

EC Payment	2006-2007		2007-2008 to 26 October	
	# Recipients	Expenditure	# Recipients	Expenditure
Exceptional Circumstance Relief Payments	86	$866,578	93	$440,243
Interest Rate Subsidy	71	$2,099,650	44	$1,593,451

Source: Drought and Exceptional Circumstance Section, Rural Policy and Innovation Division, Australian Government Department of Agriculture, Fisheries and Forestry

Table 5 describes uptake of interest rate subsidy payments by the pork industry since 2002. These figures clearly show that less than five per cent of the estimated 1500 pork producers remaining in Australia receive this form of assistance.

Table 5 Utilization of Interest Rate Subsidies by Australian Pork Producers since 2002

Year	Approved applications	Expenditure
2001-2002	7	$121,018
2002-2003	34	$549,201
2003-2004	68	$1,210,290
2004-2005	70	$1,487,210
2005-2006	75	$2,119,470
2006-2007	71	$2,099,650
2007-2008 to 26 October	44	$1,593,451

Source: Drought and Exceptional Circumstance Section, Rural Policy and Innovation Division, Australian Government Department of Agriculture, Fisheries and Forestry.

Note: These figures do not include Victorian pigs (as pigs are not specified separately), Tasmania (no pork producer has an application in) and WA (WA does not supply industry information).

Discussions with Queensland Rural Adjustment Authority (QRAA) indicate a similar usage pattern primarily for interest rate subsidy in that State (Compare Table 6). QRAA has no pork producers in their account management area indicating that pork producers are having few problems in servicing debt.

Table 6 Queensland Pork Producers Usage of Interest Rate Subsidies

Year	Applications Received	Applications Approved	Applications Declined	$ Approved
2002-2003	30	22	8	$321,191

[27] Warwick Yates & Associated, 2008, Drought Assistance Availability and Impacts on the Australian Pig Industry, prepared for Australian Pork Limited

2003-2004	58	47	11	$858,710
2004-2005	50	40	10	$759,000
2005-2006	45	38	7	$1,069,020
2006-2007	44	37	7	$1,179,300
2007-2008 to 30 Nov.	31	27	4	$922,791

Source: Queensland Rural Adjustment Authority, 2007. Note: The QRAA applications relate to 90 producers who in some instances have made multiple applications

6.2.7 Summary EC Assistance

From an industry perspective, the EC application process is complex and incredibly time consuming. The criteria are vague and some 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.

From the producers' perspective the whole process of gathering information and preparing the application was "soul destroying"; in particular, they mentioned how helpful Centrelink staff was and that the process itself is to blame. The producers see the key impediments in the process itself; it is not simple, it is tortuous and convoluted and having been through part of it with the EC payments and the rural finance subsidy, they decided to let go pursue assistance. (Case Study Farm 5, page 54)

6.3 *Farm Management Deposits (FMD)*

The Farm Management Deposits scheme was set up to encourage individual farmers to set aside pre-tax income in good years for use in low-income years. To be eligible to invest in an FMD, individual primary producers must not earn more than $65,000 off farm income in the year of deposit. In addition, only primary production income can be invested in FMDs, up to a maximum holding of $400,000 at any given time. Deposits are tax deductible in the year they are made, and included as taxable income in the year they are withdrawn. To qualify for the tax deduction, deposits must remain in the account for at least 12 months, unless the withdrawal is made in Exceptional Circumstances (EC) and the deposit was made prior to the area being EC declared.

Identified Issues

- FMD's offer a mechanism where viable famers can mitigate drought impacts using effective tax strategies averaging incomes between years.

Farm management deposits are used regularly, withdrawn and then topped back up, in preference to heavy borrowings. They have been used in the past 12 months to secure grain supplies, in preference to increased borrowings. (Case Study Farm 2, page 47)

- It seems that pork farmer FMD holdings have peaked in June 2006 at around $17.6 million and have been drawn down since then to $13.9 million as at 31 March 2007 (latest data). However, FMD's are only available to individual primary producers; companies or other entities are not eligible[28]. This is a potential cause for the relatively low uptake of this measure, i.e. only about 13 per cent of pork farmers have funds in farm management deposits.
- Farm Management Deposits are a relevant tool to manage a producers' drought risk.

[28] Department of Agriculture, Fisheries and Forestry, Review of Farm Management Deposits Scheme 2006 , April 2007

7 Potential Improvements of Drought Assistance

According to the joint CSIRO and BOM report[29] on the impact of climate change on exceptional climatic events, "the intensity and frequency of exceptionally hot years have been increasing rapidly over recent decades and this trend is expected to continue in future. Exceptionally hot years are likely to occur every 1-2 years, on average, over the period 2010-2040." It goes on, "this climate information needs to be translated into the variables that matter for farmers and farm businesses, such as yields and farm economics. Consequently, tools will be required for this integration of climate information so as to contribute to agricultural risk management processes and decision-making." A recently published report of the Bureau of Rural Sciences (BRS)[30] states, "while many adaption strategies for climate change are similar to those adopted for better drought preparedness, [...], a 'whole systems' perspective is needed to shift to climate change adaption."

In consideration of these reports, the findings of the Warwick Yates report[31] and the case studies of drought affected pork producers commissioned for this inquiry, APL has identified potential strategies and individual actions to improve efficiency of Government drought assistance and support Australian pork producers' long-term adaption to climate change.

7.1 *Information Campaign*

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.

For example, the few large integrated pork production businesses in Australia have a comprehensive understanding of their viability and effectively manage their production risk. This compares to a large number of small to medium sized producers, which often have a lack of understanding in terms of risk assessment and risk management, compared with poor skills in farm economics and government bureaucracy.

Raising awareness for, and increasing levels of producer self reliance needs to be an essential part of the strategy to improve efficiency of available government drought assistance.

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.

7.2 *Harmonisation of State Drought Assistance Schemes*

Existing state drought assistance schemes vary in criteria, delivery method and organisations responsible for administration. As outlined earlier, some state assistance measures such as transport subsidies effectively work against pork producers and create perverse effects, i.e. increased cost of production through artificially inflated grain prices.

There needs to be harmonisation of drought relief packages across state jurisdictions to create a consistent system of drought assistance across all states. This would not only remove bureaucratic

[29] CSIRO, BOM July 2008, An assessment of the impact of climate change on the nature and frequency of exceptional climatic events, available at http://www.daff.gov.au/agriculture-food/drought/national_review_of_drought_policy/climatic_assessment

[30] Bureau of Rural Sciences 2008, Climate Risk and Industry Adaption

[31] Warwick Yates & Associated, 2008, Drought Assistance Availability and Impacts on the Australian Pig Industry, prepared for Australian Pork Limited

barriers and create a streamlined and transparent application and assessment process; but it would provide pork producers with fair access to drought assistance without disadvantaging certain areas of production or types of businesses.

7.3 *Access to EC Assistance on Enterprise Level*

Modern day farming operations extend beyond Council and State borders as well as borders of EC declared areas as companies seek to mitigate operational risk by operating in different geographic areas. As outlined earlier, this risk management tool will become increasingly important as the industry continues to rationalise and consolidate. However, the 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. This means that certain parts of an enterprise located outside but adjacent to the EC declared areas are ineligible for assistance even though other parts of the same enterprise may be eligible. As a result, drought assistance contributes to reduced industry competitiveness across borders.

The problem of defining EC eligibility and criteria is difficult and there are obvious anomalies with the existing criteria based on geographical boundaries. A possible solution to counter this problem would be to grant EC assistance on an 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.

7.4 *Viability Assessment and Risk Management*

Pork producers need to better utilise existing cost of production calculators to self-assess their business viability and evaluate alternative drought mitigation strategies. Professional business advisers to the pork industry could assist with undertaking an annual business viability assessment as part of the financial / or tax reviews.

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, which is described in detail in Section 8.

7.5 *Preliminary Assessment of Eligibility for Drought Assistance*

There needs to be a better mechanism (preferably on-line) for pork producers to undertake a preliminary assessment of their eligibility for EC drought assistance programs. This tool would also be useful to keep producers aware of available drought assistance measures for their specific region and business situation. In practice, producers do not bother with staying on top of changes in available drought assistance, but wait until a severe drought event occurs before seeking relevant drought assistance advice and business funding support. Many producers are not even aware that they are eligible for assistance, as outlined previously.

The piggery is located within an EC-declared area, and the region from which it draws its grain supplies is also EC-declared. The owners were unaware of the existence of any drought assistance packages until 12 months after their release, and then only after being informed by local grain growers they had purchased grain from. (Case Study Farm 4, page 50)

This self-assessment tool could be a simple on-farm and off-farm assets and liabilities test with an estimate of off farm income. This test could be applied before pork farmers go to a considerable amount of work in completing cash flow analyses and statements of assets and liabilities to find they were not eligible in the first place because of their particular business circumstances or tax structures.

7.6 *Early Intervention*

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 hopefully return to viability. In those cases where an early return to viability is unlikely those producers need to be more effectively channelled into using drought assistance programs to mitigate drought. Where there is little prospect of the pork farm returning to viability all parties need to work together to access farm exit grants in pre-assessment or post sale stages to preserve any remaining business equity.

Piggery operation expenses have doubled in the past two years, and the business lost $250k in its last trading year. New borrowings of $400k in 2006 and a further $300k in 2007 were necessary to enable the piggery to continue operating until 2008. The owners were unaware of the existence of any drought assistance packages until 12 months after their release, and then only after being informed by local grain growers they had purchased grain from. They then contacted APL and their regional Centrelink office for more information, before completing and submitting an application for Interest Rate Subsidies. However, this was not progressed with because by the time their application had been processed, they had already sold half their land and so no longer needed that form of assistance. (Case Study Farm 4, page 50)

7.7 *Stakeholder Training*

Stakeholder knowledge also needs to be improved to remove existing barriers in the drought assistance application process of pork producers. All pork industry support agencies in Government, the finance industry and the professional services industry need to be trained in the basics of pork production. This increased understanding would enable them to correctly assess the individual situation and provide targeted assistance. For the very same reasons, these stakeholders need to be familiar with APL's suite of risk management tools (compare Section 8).

Due to an acknowledged lack of knowledge by banks about the pork industry there is an arguable case for APL and the banks to participate in, and develop an annual pork industry financial health check which includes debt / equity positions similar to the current Queensland Rural Adjustment Authority (QRAA) survey of rural debt in Queensland. This report would provide the basis to accurately monitor industry viability and would be an effective means of dialogue with Federal and State Government to ensure the regional economic benefits of a viable pork industry continue to be realised

7.8 *Additional Assistance Measures*

State and Federal Government offer a suite of programs to assist drought-affected farmers (see Attachment C). As outlined in the previous sections there are still various barriers remaining in the system, which effectively prevent pork producers from accessing vital drought assistance. However, even if these impediments were removed there is a need for additional assistance to specifically target key impediments of drought preparedness of pork producers. These measures comprise:

- **Tax incentives for on-farm grain storage and water infrastructure developments** – this would improve on-farm storage of viable resources to mitigate future drought impacts.
- **Relief for staffing costs to retain employment critical mass and skill base** – this would allow drought affected pork producers to retain highly skilled workers on farm, which is essential for returning into production when the drought breaks.

All piggery employees received TAFE based training to achieve certification. The producer also had a qualified trainer who has several years experience in RTO based pork industry training. Significant amounts of time and money were put into insuring piggery staff has access to the highest levels of training. Piggery training was conducted on a regular basis approximately 100 hours per employee/year.

Because of poor pig prices, there was no opportunity to market our livestock (pigs) at a higher weight and increasingly high grain prices it was necessary to lay off piggery staff and the maintenance man, i.e. 2 full time, 1 part time and 1 casual staff. (Case Study Farm 5, page 51)

- **Pork industry specific business planning assistance** – this would enable producers to make informed decisions on appropriate drought impact mitigation and cost control strategies, or in the worst-case on scenarios for farm exit.

8 Investments to Improve Self-Reliance and Preparedness Long Term

8.1 *Industry Initiatives*

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. Using government and participants funds, the Pork CRC identifies, contracts and manages research projects to: 1) deliver better/cheaper feed on an energy basis; 2) improve whole herd feed efficiency and sow productivity and 3) provide better pork (increased price) to Australian pork producers. The outcomes are delivered through new knowledge, products and services.

The Feed Grain Research & Development (R&D) Partnership established in 2006-07 provides another forum to integrate and identify collaborative R&D initiatives across participating R&D funding agencies involved with the feed grain and livestock supply chain.

The following section provides an overview of industry investments and research efforts to improve drought preparedness.

8.1.1 The Pork CRC Programs: Investment in R&D to Enhance Australia's Competitiveness

The Federal Government and industry participants including producers, universities, State Government agencies, APL and product and technical supply companies have invested some $84 million in cash and in kind over seven years in the Pork CRC. The Pork CRC was established in June 2005 with the objective to improve the global competitiveness of the Australian pork industry.

The Federal Government through DEST agreed to provide $25.75 million in cash over the life of the Pork CRC. The core and supporting participants of the Pork CRC have agreed to provide $8.401 million and $ 2.295 million respectively in cash and some $47 million in kind over the seven-year life of the Pork CRC. The cash contribution from participants and other organizations has been increased by some $1.5 million since the inception of the CRC and the total in kind contributions from participants is likely to exceed the original budget. Market conditions however, could affect the ability of participants to continue to meet their cash and/or in kind contributions and a number of projects have already been adversely affected by the closure of pork production units initially involved in Pork CRC research projects.

The Pork CRC core participants include two of the largest pork production businesses in Australia namely Australian Pork Farms (South Australia) and Cameron, Hall and McLean (Queensland). The two businesses combined control some 40,000 sows and produce approximately 17 per cent of total pork produced in Australia.

The other core participants are:

- Australian Pork Limited
- The University of Adelaide
- Murdoch University
- The South Australian Research and Development Institute
- The New Zealand Pork Board.

The supporting participants include QAF Meat Industries who have production and processing businesses in NSW and Victoria and are the largest producer of pork in Australia with their share of the market approaching 14 per cent in 2008

The work of the Pork CRC is a medium to long term investment in risk management to improve industry competitiveness. 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.

Table 7 contains an overview of current Pork CRC research programs aiming at improved drought preparedness and development of risk management tools for pork producer. Detailed information on the programs can be found in Attachment B.

Table 7 Current Research Programs of the Pork CRC

Program	Target	Key Deliverables
Program 1: Securing more reliable and consistent supplies of protein and energy for pig diets	I. Reduce diets costs by 10per cent by 2012 II. Improve the DE content of grains by 1.0 MJ/kg by 2012	Securing more reliable and more consistent protein and energy supplies for pig diets via innovative grain and pulse production, supply chain arrangements, quality assessment and co-production utilisation will result in: • Reduced variation in the annual costs of pig feed • Reduced total cost of pig feed • A wider range of feed ingredients available to more producers • A closer match of diet specifications to pig requirements.
Sub Program 1A: Innovative grain production for the pig industry		• Commercial quantities of cereals (triticale and barley) and pulses (peas and lupins) that grow close to pork producing regions and have a high yield, cost effective agronomy and enhanced nutritional characteristics for pigs.
Sub Program 1B: Quality assessment of feed ingredients		• Adoption, implementation, enhancement and maintenance of near infrared spectroscopy (NIRS) calibrations for the rapid measurement of the nutritional quality of cereals for pigs • Processing methods for improving the utilisation of cereal grains by pigs • Rapid and objective analytical methods for the measurement of nutritional quality in pig feed ingredients (other than cereals) • Processing methods to increase the nutrient yield from target grains (e.g. enzyme applications).
Sub Program 1C: Identification and characterization of a wider range of available feed ingredients for the pig industry.		• Identified potential for production of non traditional alternative protein and energy sources within existing grain production systems across Australia • Assessment of the nutritional potential of novel protein and energy sources • The production and delivery of non-traditional and/or alternative protein and energy sources for the pork industry.
Program 2: Improving Whole Herd Feed Conversion (HFC)	Reduce HFC from 4.3 to 3.6 over the life of the Pork CRC	Improving HFC reduces feed/ grain usage and will optimise efficiency through improved health, metabolic efficiency and reproductive capacity and will result in: • The capacity to routinely and accurately measure feed intake in individual animals and groups • Products and management strategies that allow manipulation of feed intake/feeding efficiency in pigs • Reduced reliance on antibiotics in production systems; • Cost effective nutritional and/or prophylactic treatments for the prevention of disease • Products and/or strategies to improve production efficiency • Reduction in sow culling rates • Reduced overall costs of production through improved pigs/sow/year, reduced sow turnover and more efficient reproductive performance.

8.1.2 Feed Grain Partnership

With funding assistance from the Australian Government's Partnership Program, the Feed Grain Partnership was established in the financial year 2006-07. Its purpose is to integrate and identify collaborative Research and Development (R&D) initiatives across participating R&D funding agencies involved with the feed grain and livestock supply chain (i.e. Grains Research and Development Corporation; Australian Pork Limited; Meat and Livestock Australia; Dairy Australia and the Australian Egg Corporation). It has also played an important role as a focal mechanism, for the major organisations and companies in the feed grain industry, to provide whole-of-supply chain guidance to the Partnership agencies. There are two components to the Partnership:

- The Feed Grain Supply Chain Forum, which identifies key trends and developments in the feed grains industry and provides advice and recommendations to the second component; and
- The Feed Grain R&D Partnership, which will shape and prioritise feed grain related R&D projects.

The R&D Forum has identified the following key objectives for the R & D program[32]:

i. Achieving substantial increases in average yields, and yield robustness, for sorghum, barley and triticale
ii. Improving the utility of feedgrains to end-users
iii. Trial, and to the extent practicable, commercialise feedgrain quality identification technologies
iv. Maintain a core data collection capability, and consult with industry/ government on data collection and dissemination issues
v. Review supply chain efficiency to identify bottlenecks and initiate collective action where that can improve efficiency
vi. Act as focal point for organised industry consultation on R and D related issues
vii. Foster alliance building and communication across industry sectors

8.1.2.1 Feed Grains Partnership Initiative Programs

Two major whole-of-supply chain forums were conducted in 2007/08. Industry requirements for R&D support were discussed and documented; and options were identified to help industry manage through the drought conditions. More than 20 industry companies and organisations participated at various times in these Forums.

A further four meetings of the R&D Feed Grain Forum agencies, including Australian Pork Limited (APL), Grains Research and Development Corporation (GRDC), Meat and Livestock Australia (MLA), Dairy Australia (DA) and, Australian Egg Corporation (AECL), were held to identify new project funding, collaboration and development of R&D feed grain strategies.

Key outcomes in 2007-08 include:

- Funding of the Australian Bureau of Statistics (ABS) feed grain stock data collection until June 2008 and from thereafter at a reduced frequency level with the capacity to increase data collection frequency if needed. The resultant data is published by Department of Agriculture, Fisheries and Forestry (DAFF) through their website.
- Discussions with Australian Bureau of Agricultural and Research Economics (ABARE) to assess the scope to proceed with the regional modelling project (see Section 8.2.7 for more information). A major obstacle to further progress was securing specific data in relation to

[32] Further information available at http://www.grdc.com.au/director/events/grdcpublications/feedgrainpartnership.cfm

grain stock from the grain majors (ABS grain stock respondents). As the success of this model was reliant on the quality, and consistency of the data, the Partnership did not proceed with the enhanced ABARE modelling project as it was no longer feasible. The Partnership communicated this outcome to key stakeholders and the Minister for Agriculture, Fisheries and Forestry.

- A desktop analysis of information gaps in the interface between the Australian feed grain industry and the ethanol industry resulted in the report *"A review of Grain-based Ethanol Production Effects on Australian Livestock Industries."* The impacts of grain-based ethanol are further detailed in Section 4.3.
- The plant breeding / varietal development work funded by GRDC and the Pork CRC has been reviewed, and arrangements made to co-ordinate with the sorghum enhancement project.
- A preliminary R&D strategy was prepared as the foundation for feed grain related R&D investment. The strategy took account industry feedback, Australian government research priorities, and the existing body of feed grain related R&D activities. Also, the funding and management of the Partnership was agreed for 2008-09 and replaces the seed funding initially provided under the Advancing Agriculture Program grant.
- The Partnership also developed the Australian Feed Grain Partnership website, hosted by GRDC. This website is the vehicle for access to Partnership documentation and for the feed grain related R&D activities of Partnership agencies. The website www.grdc.com.au/feedgrainpartnership also provides links to other relevant sites.

8.2 *Risk Management and Self Reliance on Farm*

The findings APL's Producer Drought Impact Survey[33] show that 50 per cent of surveyed pork producers consider themselves ineligible for either state or federal assistance; only 17 per cent believe they are eligible for either State or Federal assistance. The survey also found that only 14 per cent of farmers surveyed are receiving either State or Federal drought assistance. Under consideration of the severity of drought effects on pork production as outlined in Section 4 and low levels of government drought assistance received by pork producers it is obvious that most pork producers operate on a self-help basis in coping with drought.

As mentioned earlier, 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.[34] These findings are supported by the five case studies commissioned for this submission.

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. However, communication measures need to be refined in order to further improve producer uptake of these measures. As outlined earlier communication measures and content need to target size and type of enterprises. APL and State / Federal Government in a joint approach need to develop adequate

[33] APL Producer Drought Impact Survey November 2006 to January 2007
[34] APL Producer Drought Impact Survey November 2006 to January 2007

communication strategies to improve uptake of available management tools and further improve producer self-reliance.

8.2.1 APL Producer Risk Management Manual and Training Program

APL's Risk Management Manual, and the associated training course for pork producers, was developed in conjunction with the Queensland DPI and Intensive Agribusiness Solutions (IAS) with trained facilitators in every state.

The programs' primary focus lies on increasing producer awareness. It is a practical way to assist producers to identify and quantify market risks so that appropriate risk management strategies can be developed for their own businesses. There is no single strategy that is appropriate for each and every producer. For this reason, it is important for producers to get exposure to a range of risk responses and determine the right course of action.

8.2.2 Piggery Cost of Production Calculators

In the current climate, with continued rising production costs and poor returns, producers are assessing whether to exit the industry or continue production in the hope that input costs return to sustainable levels. APL in conjunction with the Queensland DPI and Intensive Agribusiness Solutions IAS has developed a specialised *Cost of Production Calculator* to assist producers with the decision making process. This tool, which is based on an EXCEL spreadsheet, allows producers to determine cash flow requirements for various herd size reduction scenarios and make informed decisions with the best available information and advice.

APL has also contributed to development of a depopulation/repopulation cash flow calculator for any producer who may choose to use times of reduced margins to upgrade the health status of their herd by depopulation followed by repopulation. Producers can access both tools and a wealth of associated background information via the Queensland DPI website[35].

APL has developed a publication on various depopulation/repopulation strategies to allow producers to identify the best available procedure for their circumstances.

8.2.3 AUSPIG

AUSPIG is a computer based decision support system that models a herd's unique performance characteristics so that more profitable management strategies can be determined and implemented[36]. The more common management issues identified by AUSPIG are the:

- level amino acids that are oversupplied in the respective diets;
- amount of feed wastage;
- stocking densities; and
- appropriate marketing strategies.

This valuable management tool assigned for piggery managers is able to provide information on feed ingredients, formulation of diets and feeding levels. Some Australian producers, especially in Queensland, have reported increasing profitability of $100 per sow in the first year of using AUSPIG. The most onerous aspect of doing an AUSPIG analysis is the collection of physical feed data. That is, measuring the amount of feed offered and left over for a specific batch of pigs from weaning to point of sale. However, results have shown that there can be an increase in profitability in the first year of using this system.

[35] For further information visit http://www2.dpi.qld.gov.au/thematiclists/792.html
[36] For further information visit http://www.auspig.csiro.au/

8.2.4 FEEDCHEQUE

Another option that home mixers can consider is FEEDCHEQUE, developed by APL as a group-training package. The FEEDCHEQUE "kit" provides a manual and simple tools to assist pork producers to improve their on-farm diet mixing practices as well as maintaining the quality of mixed feed prepared on-farm in the long term.

Studies have shown that there is often substantial room for improvement in the ways diets are formulated and prepared on-farm. In fact, a piggery that recently evaluated its home milling procedures using FEEDCHEQUE estimated that that they could improve their profitability by $20,000 per annum by ensuring the desired particle size and uniformity of feed ingredients was achieved during the milling process.

8.2.5 Feed Efficiency - Monitoring and Improving Feed Conversion Efficiencies

Improving Herd Feed Conversion (HFC) has the same proportional effect on cost of production as reducing feed cost. Improvements in HFC can be achieved though strategies which improve animal health and/or survival, reproduction and /or the animal's capacity for muscle growth. Strategies which influence volume also have positive effects on over head costs and revenue and as such can have a proportionally larger effect on profit than the improvement in HFC per se might suggest. It has been calculated that a 0.1 per cent improvement in grower FCR can improve the profitability of a 200-sow unit by approximately $6,000 per annum. The Pork CRC has designated one of its four programs to improved HFC (compare Section 8.1.1).

8.2.6 Joining an Alliance

An alliance is a formal business structure whereby members of a supply chain agree to work together to maximise their returns and minimise risk. Small producers particularly benefit from an alliance as they can access the advantages of being part of a larger scale operation. APL has been actively involved in encouraging producers to look at this option through our National Networks Alliance Program (NNAP).

8.2.7 ABARE Regional Modelling Project

The ongoing availability of feedgrains in Australia is a key strategic issue for intensive livestock industries. About one third of dairy products and beef production is derived from grain feeding. The Australian pork and poultry industries are entirely grain dependent. The international competitiveness of these industries relies to a large extent on their capacity to source grain across regions and seasons on an affordable basis.

In 2006/07 the Feed Grain R&D Partnership identified the need for predictive modelling to understand, and to adjust to the effects of climate change. The Regional Feed Grain Model was proposed to include a sophisticated, regional level capability to factor this in the existing predictive ABARE modelling, and with the Partnership contributing significant funds to develop this model until 2007/08 (compare Section 8.1.2.1).

As explained in Section 8.1.3, Feed Grain R&D Forum members had been funding monthly collection of grain stocks by type at the national level. This task was carried out by ABS under contract to DAFF. The original objective was to use national grain stock collection as a stepping-stone to include regional level information. This, in turn, would open the door to proceed with substantially upgrading the ABARE regional feedgrain supply and demand model. The model would draw on this regional stock data to generate a mass of up to date information about current and prospective market conditions in Australia.

However, a lack of information about the regional distribution of grain stocks led to a major impediment for realizing this project. The main cause for this is the reluctance of the major grain

companies to provide ABS with region-level stock data. The majority view of those companies is that the market works satisfactorily without that data being available.

As a result, the Partnership decided to reduce the current national monthly collection to twice a year, i.e. at end of March and end December. Additionally, the Partnership decided not to proceed with the updating and upgrading of the ABARE regional feedgrain model. This issue cannot be taken any further without the full co-operation of the grain majors or a policy decision by industry and government to require more detailed data collection.

These decisions mean that important industry sectors will continue to lack the information tools that have been advocated in various reports and meetings, including earlier government convened drought summits prior to the formation of the Partnership. More significantly, this stands against the key findings of the recent CSIRO & BOM analysis of climate change effects on exceptional climatic events in Australia[37]. Commissioned by the Government as part of the current Inquiry into Drought Assistance, CSIRO and BOM identified the need for development of predictive modelling of climate change effects. The report states, "Farmers and farm businesses need user-friendly, reliable and up-to-date information specific to their location regarding climatic conditions and future climate variability." The report identifies steps that need to be undertaken to improve the understanding of climate change. These steps include:

- Additional studies to more accurately identify the climate change information needs of different sectors of rural Australia;
- Development of early warning and predictive systems for drought, allowing the timely recognition of exceptional events developing; and
- Further research efforts into improved climate change projections and seasonal-to-interannual forecasts and their relevance to decision-makers in different sectors and regions of rural Australia.

These findings support the need for development of a regional feedgrain model as proposed by the Feedgrain Partnership to secure ongoing availability of feedgrains in Australia. Any Government action in this direction would be welcomed by the Partnership.

In August 2008, APL and other stakeholders have been approached on DAFF's proposed additional data collection for wheat. We note that the Australian Government accepted the recommendation of the Wheat Industry Expert Group (IEG) and committed to provide up to $2.52 million for provision of wheat market data for the first three years.

In general, the Partnership supports the principle of increased public provision of market data. APL will be putting forward its comment on the proposal and recommendations on modifications to improve the outcomes of the project in a combined paper through the R&D Feed Partnership, This response is currently being developed.

[37] CSIRO, BOM July 2008, An assessment of the impact of climate change on the nature and frequency of exceptional climatic events, available at http://www.daff.gov.au/agriculture-food/drought/national_review_of_drought_policy/climatic_assessment

9 Conclusion and Recommendations

Australian pork producers are severely impacted by drought; yet in the last drought, most were unable to access assistance due to EC eligibility criteria. More significantly, some state assistance measures effectively increase production costs and create perverse outcomes for pork producers. 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.

In managing drought impacts on-farm the pork industry has developed a self-help approach. 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.

Industry data provided in this submission clearly shows that existing EC criteria has not kept pace with development of modern day farming businesses, reducing the uptake of government drought support by pork producers considerably. Ongoing industry consolidation has led to development of large integrated pork production businesses, which often extend beyond council and state borders, as companies seek to mitigate operational risk by operating in different geographic areas. Existing EC declaration criteria effectively prevent pork producers from receiving drought assistance. This creates an unfair economic disadvantage compared to other livestock and grain producing industries and further contributes to reduced competitiveness on the domestic and international market.

The pork industry has made significant investments in improving on-farm drought preparedness, risk management and self-reliance. Drought has created an opportunity for producers to tighten production and focus on improving farm efficiency. However, existing EC criteria and assessment procedures have tended to discriminate against pork producers and therefore put them at a disadvantage to other livestock and grain producing industries. 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.

EC assistance is essentially designed on the requirements of broad acre farmers and effectively restricts pork producers' access to drought assistance. The drought assistance framework fails to cater for the inherent differences in size and type of pork production systems; risk management strategies employed by pork producers to cope with drought; the fact that pork production is a cash-flow intensive industry with low margins that will continue to produce to service debt given its high capital outlay. Critically 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.

Various recently published reports on the impact of climate change on rural industries and communities in Australia, highlight the need for Government to broaden its horizon of understanding of drought events under consideration of long-term impacts of climate change. Government drought assistance to Australian farmers must reflect the bigger picture of climate change to allow for sustainable agricultural production; and equally as important, EC eligibility criteria and assistance measures must be updated to reflect modern day farming practices and business structures.

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.