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200 SOW PIGGERY

In 1994 I signed a contract with a Queensland based international breeding company and under went a restock and facility upgrade. To do this a considerable amount of borrowings was necessary. The aim of this decision was to achieve a high health status and to diversify to have 3 separate incomes from one business being

1	slaughter pig sales	60%	
2	breeder gilt sales	30%	
3	contracted In-pig gilt sales for research	10%	

The latter two of these incomes being *value-adding* to my production strategy.

This redevelopment took approximately 1 year from destock to fully operational. The decision to proceed with this redevelopment was not taken lightly and was made after considerable investigation not only by myself but also with consultants. At that time imports *were* coming into Australia and all sources of information that were available did not predict the huge increases in imports that have since occurred.

Since then I have survived normal business risks eg

high grain prices (such as after the drought)
numbers of producers leaving the industry making sales of breeder gilts less
and herd health status breaks.

However this year with the downturn in price no producer could possible absorb the cost into loss of profit. No amount of belt tightening will help when the total amount of income for a given month barely covers cost of feed without addressing other fixed costs. (During some months the cost of feed alone was not totally met by pig sales)

In late 1997, as part of my normal business practice, my borrowing and equity position was reviewed by myself and my bank at which stage I had 70% equity in my business that was valued at around \$700,000. At the 30th June Bank lending facilities ran out when borrowings reached 50% equity. This was not helped by the fact that the Bank devalued the piggery facility and the livestock dramatically as interest in the purchase of a piggery enterprise had declined to be non-existent.

Due to the fact that the on-farm pork production as a whole was in decline the sales of breeding stock completely halted and this had a big effect on my budget outcome, in addition to the dramatic change in what I had budgeted for in sales of slaughter stock. It is important to note that the livestock numbers (breeding herd and stock for sale) and the feed and other costs were consistent with my budget estimates.

Survival beyond this point required selling extra stock to cover cash flow, which in turn reduced sale weights, increased penalties, increased freight costs per kilogram and reduced stock asset value.

A halt in all maintenance work decreased asset value and increased costs, due to extra work load and feed wastage. A halt in breeder replacements reduced my herd by approximately 25% as I was financially unable to purchase breeder replacements.

A bitter disappointment to me was that I had to dismiss my employee as I was unable to finance his continued employment. I had invested in his training and developed a highly skilled and valuable asset for my business. These skills are now probably lost from the industry as he has had to find employment in another field.

Tightening of credit terms by my two largest creditors required my accounts to remain current and all overdue amounts to be addressed by an agreed minimum reduction each month.

I had retained my pig feed mixing equipment and I was able to purchase grain to prepare feed myself. This reduced the cost of bought in prepared feed. The grain has been procured on credit and for that reason was priced higher than current market price. This has however increased the workload.

This downturn has severely jeopardized my business viability. My additional borrowings to keep my business afloat are

additional bank borrowing	\$30,000
grain purchases (credit)	\$15,000

My asset worth/equity has declined in various ways which can be described as follows

devaluation of piggery (bank equity valuation)	\$140,000
maintenance (to return piggery to satisfactory operating standard)	\$12,000
breeder herd replacement (25% normal replacement not undertaken)	\$15,000

This does not include the expected \$22,000 of gilt sales (which did not occur) over this period. Due to the loss of producers from the industry it is anticipated that many of these sales will not “recover”.

I have attempted to show what my losses have been from a break-even point. This does not show that I have been unable to make a reduction in debt level as I normally do i.e. I have only paid interest this year. I also have not shown the reduction in the standard of living that I have been forced to accept.

Original copy signed and dated in mail to Commission.

If required further substantiation can be supplied in confidence.

Signed 24/08/98

IM Vallis