

\* NB Commercial - In - Confidence information has  
been removed

**Submission by  
Bunge Meat Industries  
to  
Pig and Pigmeat Industries  
Inquiry**

**August, 1998**

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# 1. Executive Summary

- **BMI is not about being a protectionist company and has a history of exports.**
- **Imports escalated rapidly from mid 1996 through to end 1997 to represent nearly 30% of pig leg meat for leg ham production from a base of 5-10% from mid 1991 to mid 1996.**
- **The like Industry is clearly the Pig Farming Sector, given that 95% of producers sell their pigs in a slaughtered eviscerated form, i.e. PIGMEAT, and it is PIGMEAT that is imported.**
- **This escalation in imports caused pig prices to trend downwards for the first time in 25 years during second half of 1997.**
- **The opening price for 1998 was therefore at its lowest level for 10 years.**
- **Furthermore, the huge increase in imports during second half of 1997 saw BMI enter 1998 with significant leg stocks on hand.**
- **As a consequence prices fell more than the typical downward trend in first half of 1998 as manufacturing had minimal demand for leg meat, resulting in a rapid decline in pig price.**

# 1. Executive Summary

- **The forecast price for 1998 will be at levels not seen since the mid 1980's.**
- **The resultant loss for BMI at .... is clearly out of proportion of a normal rural cyclic profit nature.**
- **The quantum of the loss is devastating and totally unsustainable.**
- **All other factors that effect pig prices were within normal Industry bounds.**
- **The outlook is of grave concern given that the combined June/July imports of 1998 are up by 13.4% on June/July 1997. This increase could well mean imports will now reach record levels during second half of 1998.**
- **In addition, the recent allowing of imported cooked product from both Canada and Denmark can only add to this concern.**

# 1. Executive Summary

- **BMI recommends that a Temporary Tariff Quota (TTQ) for 4 years on pigmeat imports be set at 4000MT per annum and volumes in excess of 4000MT have a duty set at \$2.00/kg.**
- **This safeguard will:**
  - **allow BMI to adjust its export capability from its present 10% of production to 25-30% by 2002.**
  - **provide time to revolutionise our Pig Production processes.**
  - **allow time for registration of new vaccine technology freely available to other countries.**
- **In addition it will provide time for BMI to develop domestically in the areas of:**
  - **ready retail packs**
  - **speciality pork outlets (Lenards)**
  - **developing fast food products**
- **It will also allow other operators to build speciality plants to penetrate the export market - particularly Japan, thereby providing a solid export base.**

# 1. Executive Summary

## ❑ System of Intensive Pig Production

- All intensive and most non-intensive operators have a continuous flow production system i.e. production for sale every week of the year is basically the same. The cycle from point of mating to slaughter is in order of 40 to 45 weeks.
- 
- The system therefore means that each week of production must be sold at the appropriate age.
- In general, the quantity of pigmeat produced is the same week in, week out, because of this “pipe line” effect.
- The impact of significantly increased imports of leg meat in the second half of 1997 subsequently reduced the demand for pigs and hence the price achieved, as pig numbers could not be adjusted to counter this, given the “pipeline” effect of production.

## 2. Introduction to the Bunge Meat Group



**Bunge Meat Industries (BMI) is a vertically integrated intensive pig producer with stockfeed milling, slaughtering, boning, distribution and wholesale.**

### **□ Business**

- BMI established its first piggery in 1971 near Albury as a means of more efficiently utilising the natural by-products from its flour milling operations.**
- The rapid success of this piggery led to the purchase of further properties at neighbouring Corowa and the establishment of a facility which has grown to be one of the largest single site piggeries in the world.**
- Currently there are eight production sites throughout Victoria and NSW.**
- BMI, with 52,000 sows representing 17% of the sow herd, is by far the largest producer in Australia.**

## 2. Introduction to the Bunge Meat Group



### □ Product

- **The company produces approximately 920,000 pigs per annum which represents 19% of total pigmeat produced in Australia. Given BMI holds 17% of the sow herd, this production clearly represents an efficiency over the balance of the Industry.**
- 
- **Of BMI's total production approximately 14% is processed through its on site boning room at Corowa, whilst the balance is sold in carcase form to internal and external customers.**

### □ Market

- **..... The Industry mix is approximately 38% fresh, 58% manufacturing and 4% export.**
-



## 2. Introduction to the Bunge Meat Group



- ❑ **BMI has been a leader in the Industry's export drive**

Export Value				
1996	1997	1998(E)	1999(F)	2000(F)
5.3m	10.3m	15.6m	18.4m	33.5m

- **BMI is one of a few operators in the world capable of shipping fresh chilled product to Japan by sea. BMI has an outstanding slaughter/boning facility at Corowa with a hygiene status second to none.**

### ❑ **Plant**

- **BMI's production facilities exceed Industry standards, with new technology undertaken regularly.**
- **The onsite abattoir at Corowa is the largest single species (pork) plant in Australia, slaughtering 445,000 pigs.**

## **2. Introduction to the Bunge Meat Group**



- **The adjoining boning room processes 14% of production, but will increase as exports develop.**
- **The balance of company production is slaughtered under contract at other Victorian locations.**
- **The Corowa stockfeed mill ranks 4th. in Australia in terms of output at 195,000 MT pa.**

Chart 1

# Export Value

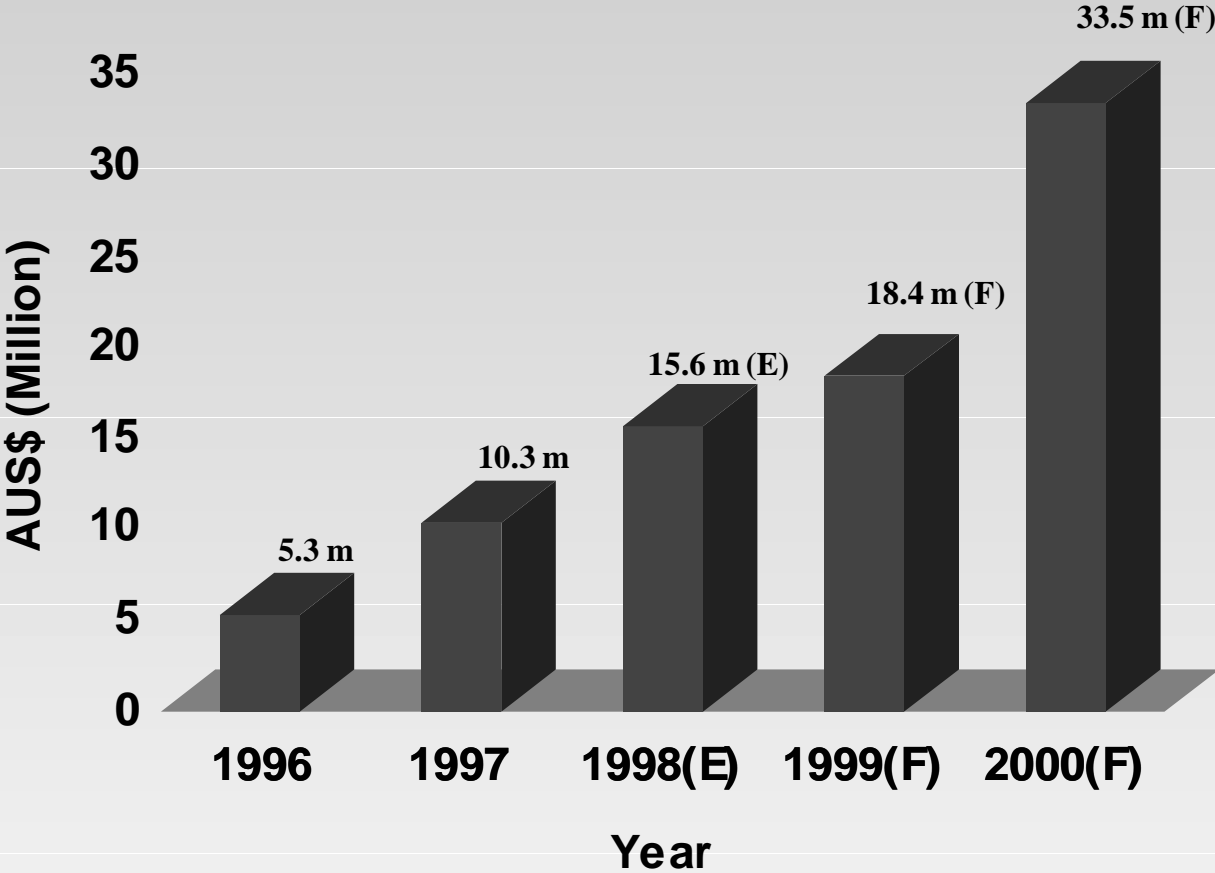
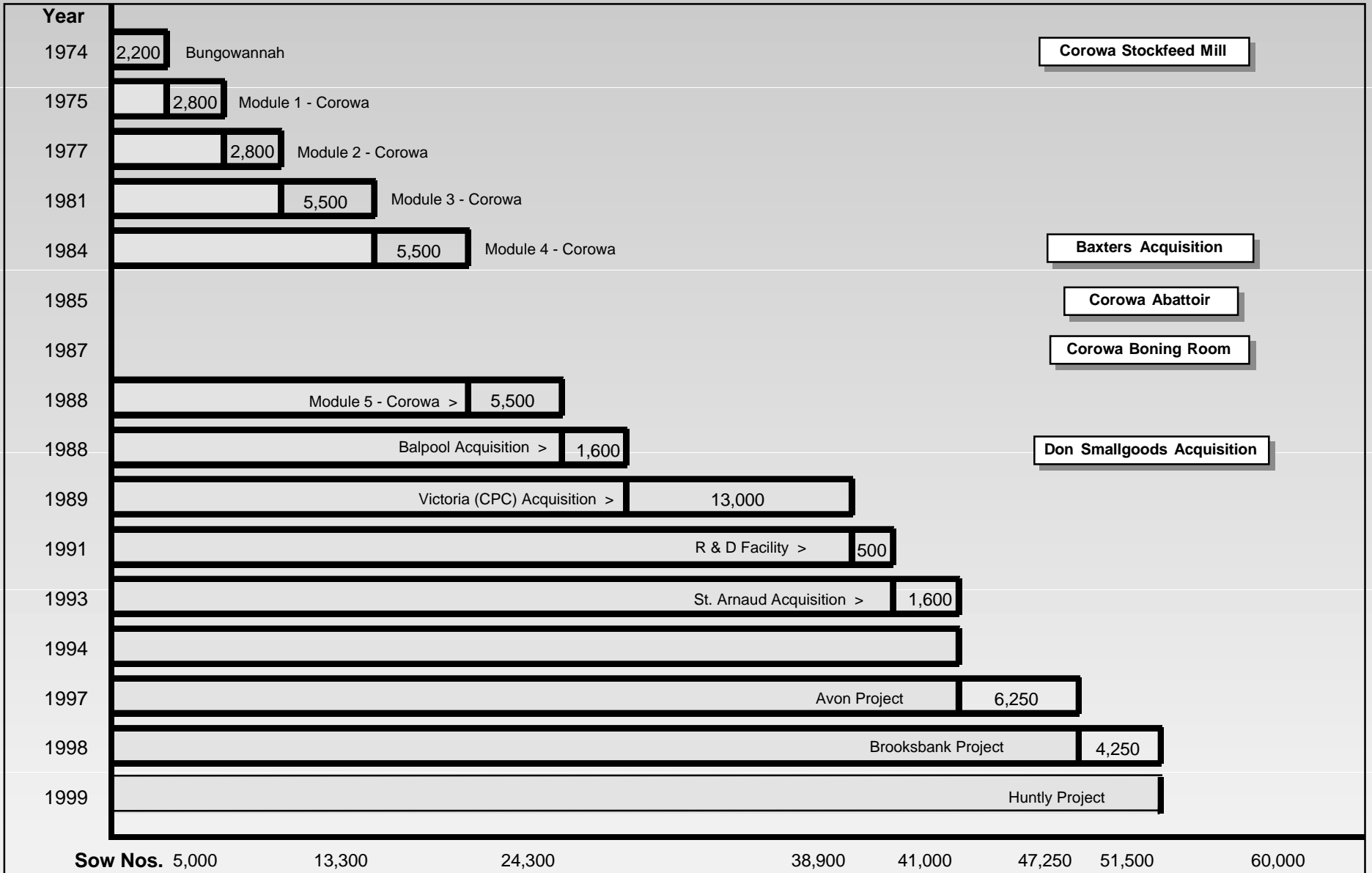


Chart 2

# History of BMI Growth



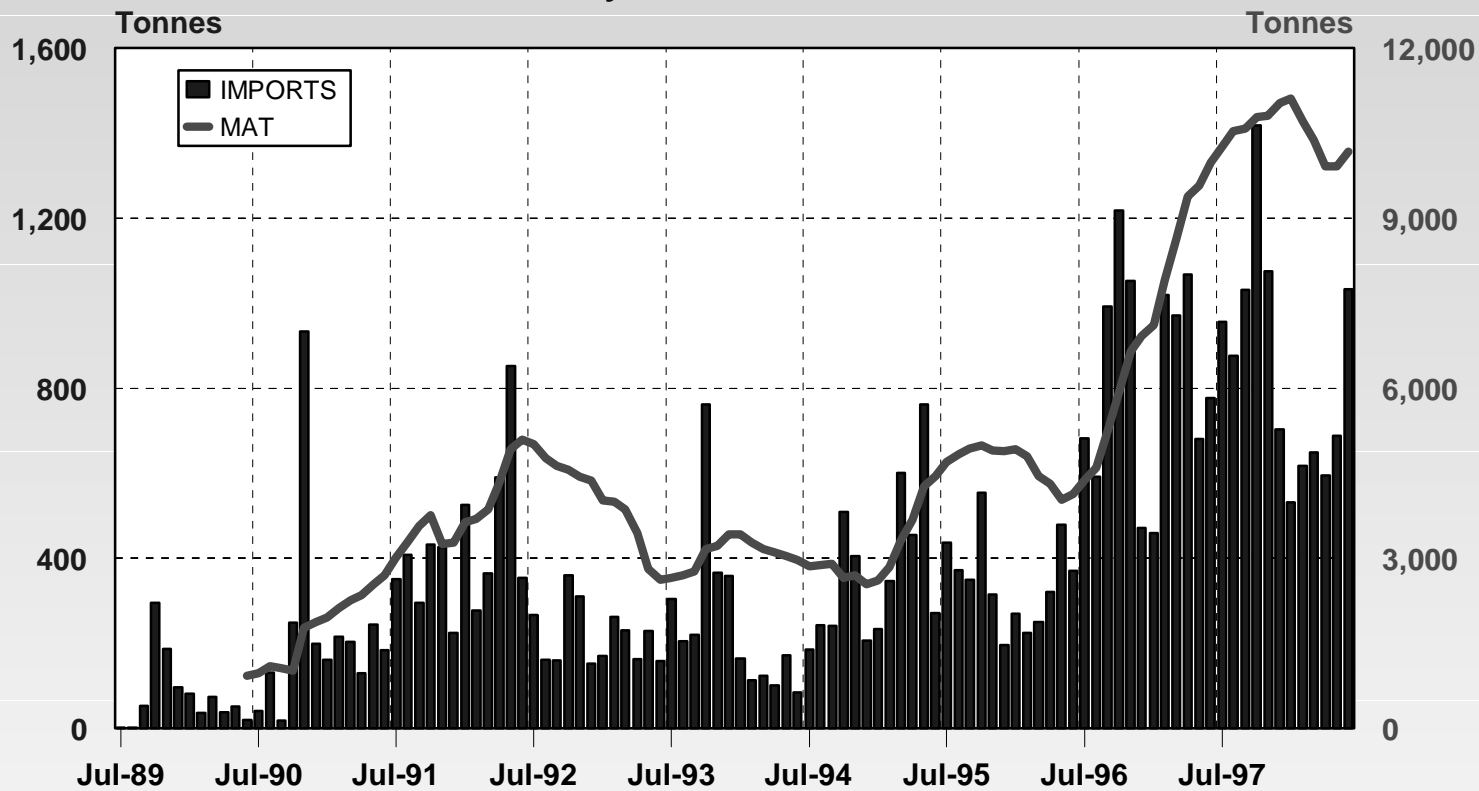
## **3. The Submission**

## 3.1 History of Imports

- **In July 1990 imports from Canada were allowed into Australia in frozen and uncooked form.**
- **From mid July 1991 through to July 1996 imports remained fairly steady and manageable between 3000-4000 Metric Tonnes per annum.**
- *From July 1996 imports increased rapidly - more than doubling - to peak at slightly over 11,000 MT in 1997 (Chart 3). There is no doubt that imports have increased in both absolute and proportional terms.*
- 
- **Current trends do not indicate any significant easing from this new import plateau. In fact the most recent 2 months of imports, ie May and June 1998 were both up on 1997 levels, particularly June at 1034 MT versus 776 MT for 1997 - an increase of 33%. This raises a grave concern that imports are essentially boneless legs from Canada, which will now compete very heavily for the Australian Christmas leg ham market as it gathers momentum during the second half of the year.**
- 
- **If not restrained, imports will again surge to a new high level, most probably in a similar short period to the recent import surge.**
-

## “Imports surge to new levels from mid 1996 through to 1997”

### Pigmeat Imports July '89 - June '98



Source: ABS International Trade Imports

## **3.2 Defining the affected segment of the industry**

- **In defining producers of like or directly competitive product, it is clearly the pig farming sector of the overall industry. The principle argument in support is an estimated 95% of all pigs in Australia are sold “over the hooks”, i.e. the transfer of ownership from the pig farmer to the next link (processors, wholesalers, retailers etc) is after the animal has been slaughtered and eviscerated.**
- 
- **At this point the animal is a carcass or in more normal terms - PIGMEAT - and it is PIGMEAT that enters this country albeit essentially legs. However, other parts of the carcass (pigmeat) are eligible for importation.**
- **The other 5% of pigs are sold throughout Australia in live auctions such as Ballarat, Gunnedah, Toowoomba and Gepps Crossing.**
- **In addition, these markets are slowly diminishing and basically used as a “top-up” for a small number of wholesalers and processors.**



## **3.2 Defining the affected segment of the industry**

- **Furthermore, the value of the 5% sold through these livestock systems is linked closely to the other 95% of pigs sold over the hooks. The only time this may vary would be in times when pork is in oversupply or undersupply.**
- **Confirmation of the like product is that it is the pig farmer who is going through extreme financial pain at present and not other parts of the overall Industry, and it was clearly the pig farmer who pressured Government to instigate this inquiry into Safeguard action against imports**

## 3.3 Analysis of Imports

- It is very important to analyse what the imports are and what they represent in terms of the Australian domestic market. Many non-Industry analysts have misrepresented the impact of Canadian imports.
- 
- For the purpose of this analysis it is assumed that all imports are boneless legs, which then enter the manufacturing segment for further processing into ham products (product must be cooked).
- 
- The crude impact of imports for say 1997 is:

Imports	Pig Production (levy based)	%
11,037 MT	342,853 MT	3.22

- However, imports are boneless and rindless, whilst the recorded domestic production is bone in and rind on, hence for a direct comparison we need to convert imports to a rind-on bone-in equivalent - this is simply done by dividing by 0.6.
-

## 3.3 Analysis of Imports

- Furthermore because imports only affect the processing sector and also are only legs, the true comparison is:-

- $11,037\text{Mt} \div 0.6 = 18,395 \text{ MT carcass weight equivalent (CWE)}$ .

- Processing accounts for 58% of total pigmeat produced in Australia, therefore total production entering this segment is:

$$342,853 \text{ MT} \times 58\% = 198,855 \text{ MT}$$

- Of this 198,855 MT one-third is leg meat

$$198,855 \div 3 = 66,285 \text{ MT}$$

- Hence “real” impact of legs entering Australia is

Imports	Australian legs for processing	%
18,395(CWE)	66,285 MT (CWE)	27.75

## 3.3 Analysis of Imports

- **On this basis imports from mid 1991 to mid 1996 saw imports accounting for between 5-10% of legs for leg ham production.**
- **From mid '96 to mid 1998 imports escalated rapidly to now represent 25-30% of legs for leg ham production (Chart 4).**
- **The concern now is what volume will enter during the second half of 1998. With June actual some 33% higher than June 1997, the Industry has a real need for concern.**

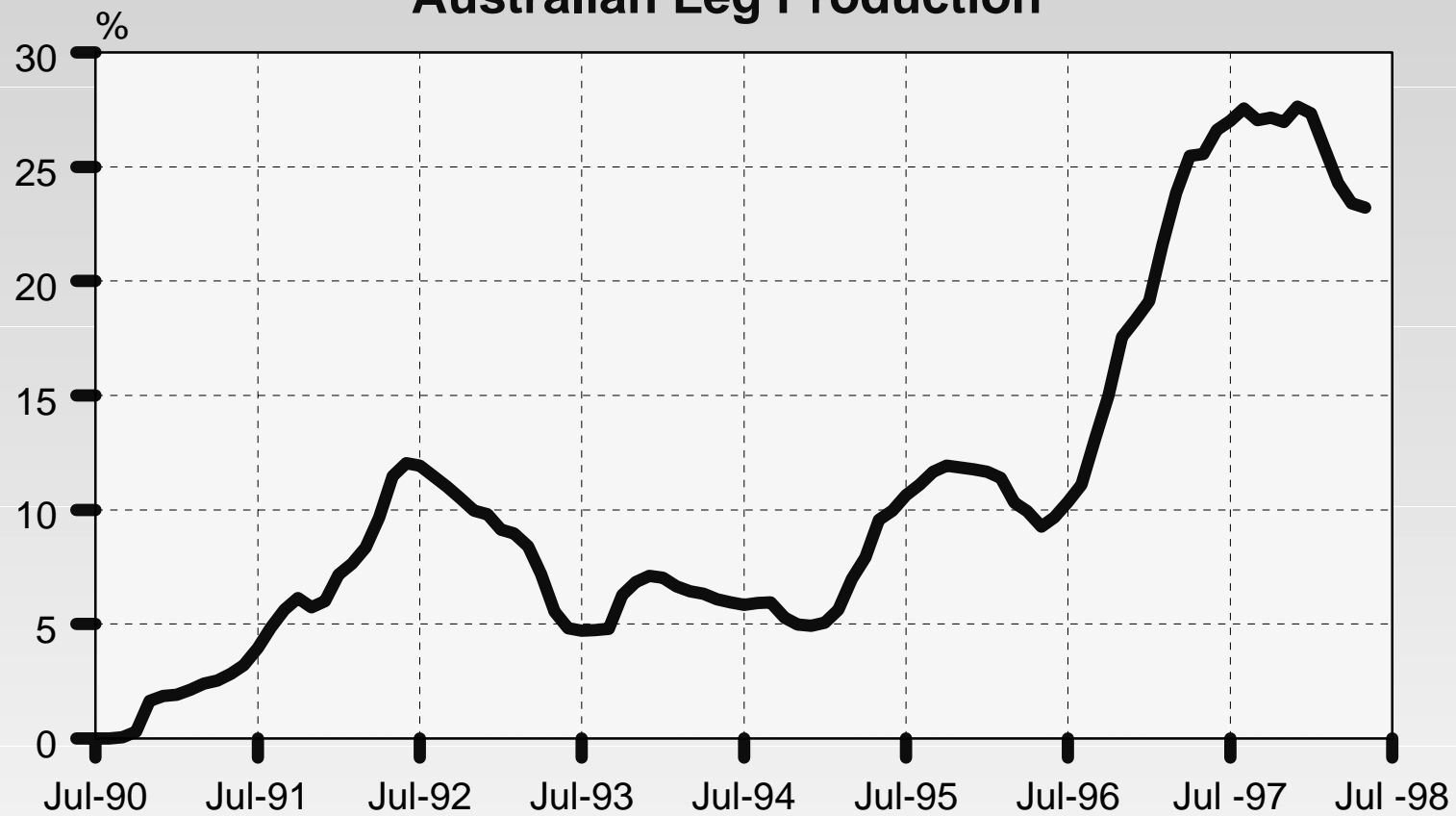
- 

### **Footnote**

- **The leg primal in Australia is the premium primal and as such is the most demanded, particularly in the second half of the year as processors gear up for the premium Christmas ham trade and Summer cold meat and salad season. Chart 5 clearly demonstrates the huge surge in Ham Sales at Christmas.**
- **As a consequence imports being predominantly legs has had a larger impact on pig prices as the demand fell for pigs as imports escalated during 1997.**

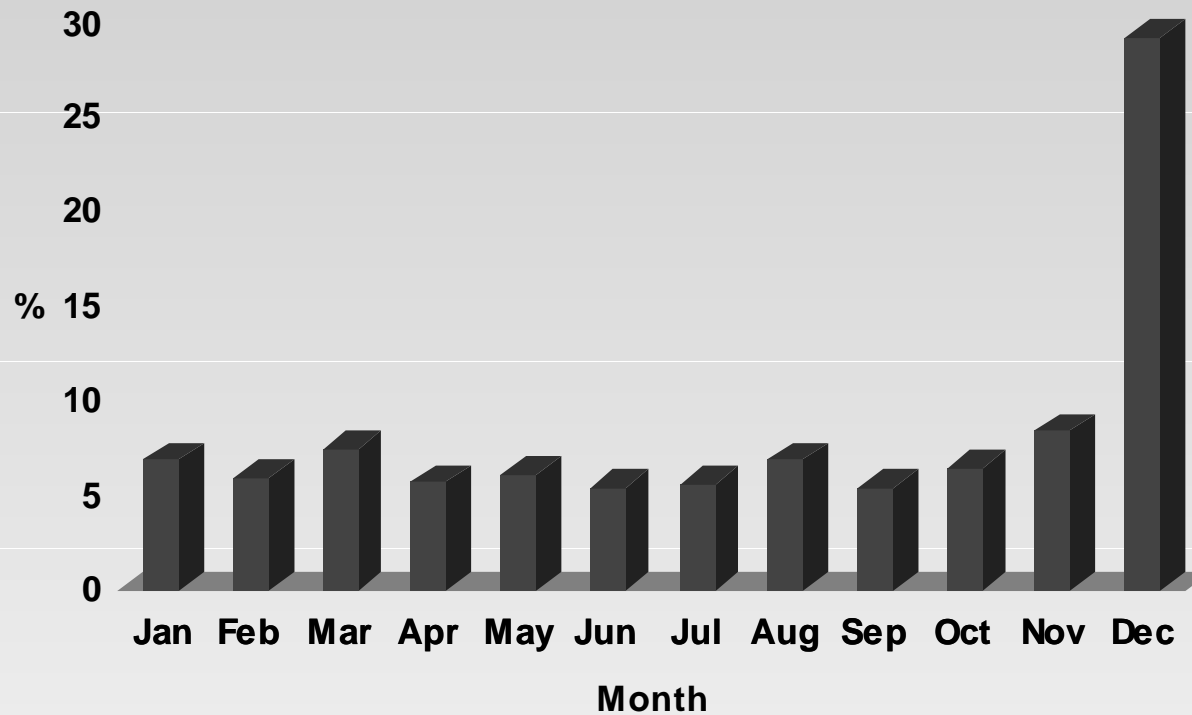
**“Imports now represent just below 30% of raw material for the leg ham market”**

**% Canadian Imports of Australian Leg Production**



Source: ABS & ABARE

# Monthly Sales Split - Ham



Morgan Survey Consumer Purchases APC

## 3.4 Impact of Imports

- The major impact of imports particularly since mid 1997 has been on reducing the price of pigs domestically across the board. Furthermore domestic leg prices have also been negatively affected with the onset of significant quantities of imports.
- 
- But the main affect has been on pig price and it is clear there is a trigger at a point above 10% of Canadian imports as a percentage of leg ham production that causes the domestic pig price to fall (Chart 6).
- 

*It is critical to repeat that the driver of pig prices from June/July through to November and the biggest factor effecting average pig prices is processors seeking legs for their Christmas ham and Summer production (see Price Charts 6 and 7 and Imports Chart 3), together with Ham Sales Split (Chart 5).*

*Importantly the level of imports (which is predominantly legs), not only affects domestic leg prices, but has a major effect on the overall pig price.*

- As imports have escalated this premium primal has replaced the requirement for shoulder meat to produce alternative ham products.
- 
-

## 3.4 Impact of Imports

- This has subsequently caused an excess of shoulder meat and consequently devalued, which further places pressure on the overall pig price
- In 1997, for the first time in 25 years, the Industry saw declining pig prices during the July-December period (Chart 7). There is no doubt the escalation of imports during 1997 and in particular the second half of 1997 caused this decline - **THIS IS THE COMMERCIAL REALITY.**
- This decline in price during the second half of 1997 resulted in an opening price for 1998 at a level not seen in the past 10 years (Chart 7)
- The price has subsequently followed previous historical trends in falling for the first 4 months, although the price has fallen further in 1998 and is certainly at a level not seen for 15-20 years or some ..... below cost of production (COP) *this is clearly serious financial damage.*
- Based on BMI's production at 920,000 pigs per annum at an average carcass weight of 70kg HSCW equates to a loss..... on an annualised basis.
-



## 3.4 Impact of Imports

- **The commercial reality for this increase in fall of pig prices during first half of 1998 was a carryover of legs from the Christmas season (out of character for Industry and due to excessive imports).**
- **As such the processing sector was keen to absorb this carryover, consequently pressure on demand for purchasing pigs fell.**

# “Pork prices plummet as imports exceed 10% of leg ham production”

## % Canadian Imports of Australian Leg Production

(up to June '98)

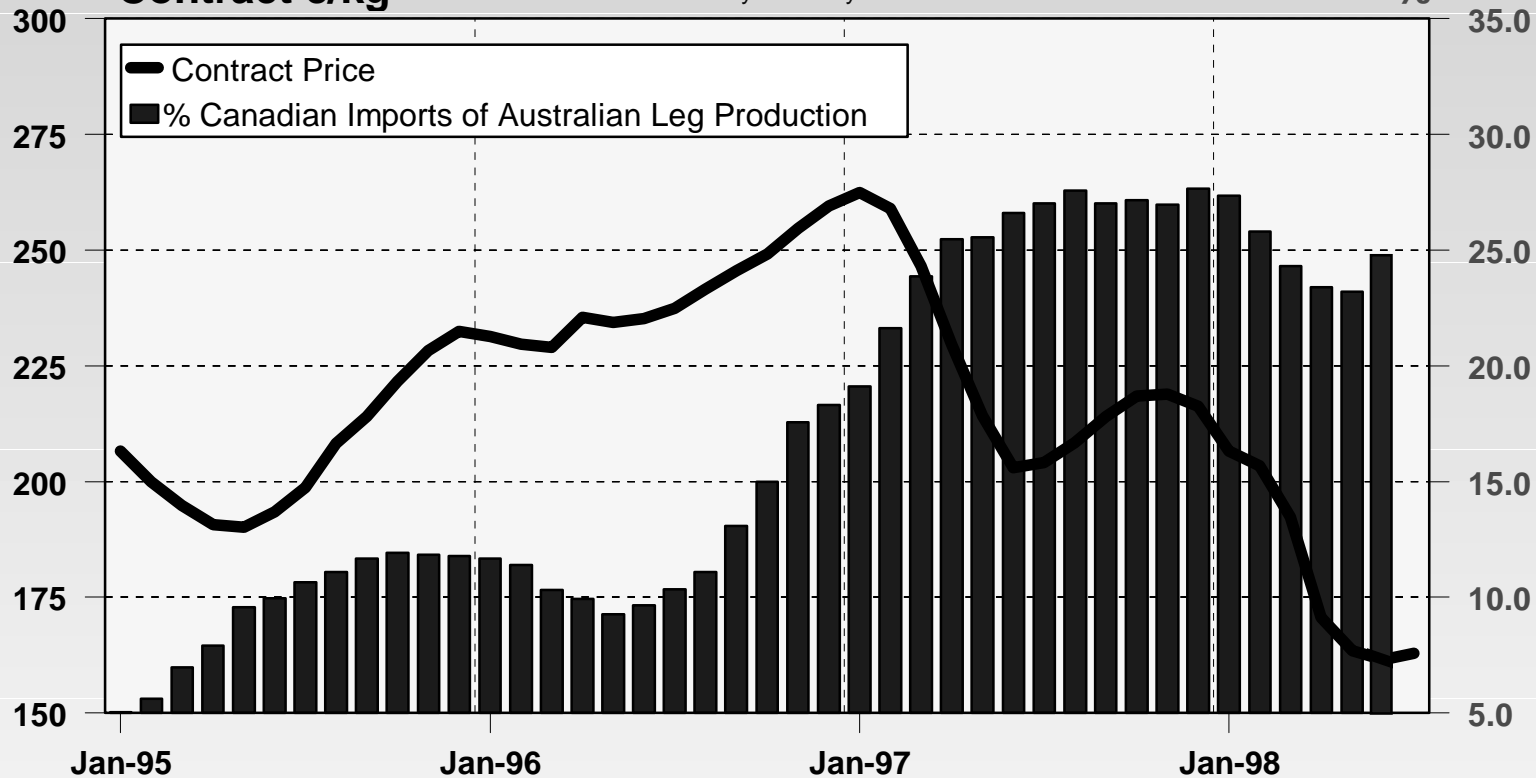
VS

## Monthly Contract price of baconers

Contract c/kg

January '95 - July '98

%

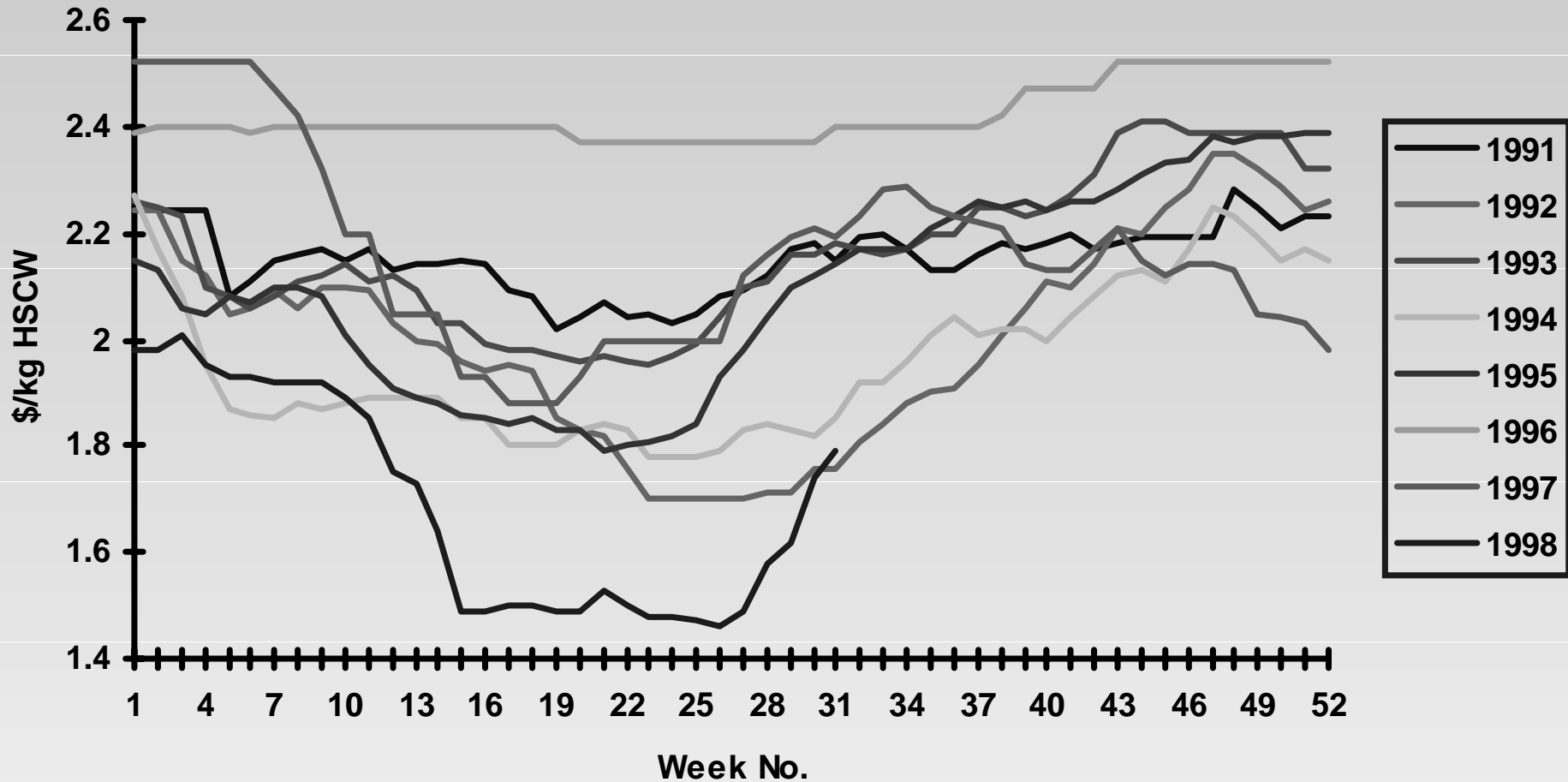


Source: Nielsen & QPPO

Weighted average (based on slaughterings) on State, then averaged for National

Chart 7

# Base Prime 1991 - 1998



**Average Price**

1991	1992	1993	1994	1995	1996	1997	1998
2.02	1.91	2.10	1.92	2.02	2.36	2.10	1.67 (f)

09/23/98

\*

## 3.4 Impact of Imports

- **Prices during July and August 1998 are increasing - this had to happen as prices at .... below COP would clearly be unsustainable. Should imports continue at June levels, prices will start to peak very rapidly and we could be in for a repeat of 1997/98.**
- **Whilst there is anecdotal evidence of producers leaving the Industry, we, at this point do not have confirmed information. Should there be a massive exit, then pig price will probably continue to rise significantly but for the long term this does not help the Industry in becoming a strong Industry domestically with a solid export focus.**
- **BMI has clearly been an Industry leader in terms of investment, productivity/efficiency with an export focus.**
- **The following table (Charts 8 & 9) shows BMI's historical performance and, whilst there are variations from year to year, 1998 will for the first time in BMI's history make a loss. Furthermore, the forecast loss for 1998 is devastating. This is clearly out of balance with the usual fluctuations within the Industry/business, and again clearly demonstrates serious financial damage.**

•

## Chart 8

# Chart 9



## 3.5 Outlook

- **With the recent relaxation of cooked product being allowed into Australia from both Canada and Denmark the outlook for pig farming is not good.**
- 
- **BMI has forecast a price for 1999 at around ..... or at breakeven levels for BMI, but certainly below for the Industry on average.**
- 
- **The outcome of this price will certainly be affected by the level of imports.**
- **With the outbreak of foot and mouth disease in Taiwan in March 1997, the opportunity for expansion of exports into Japan has risen.**
- 
- **BMI and others have now captured a small share of this market with excellent potential to grow.**
- **However it will be vital for Australia to have a critical mass of production in Australia to serve this important Japanese market. Up until recent times a sow herd of 300,000 or production of around 340,000MT CWE was servicing the domestic market together with small export orders.**
-

## 3.5 Outlook

- **A massive fallout of producers will put Australia's ability to be a long term exporter at risk, which would be devastating given this great window of opportunity now existing in Japan.**
- 
- **Japan is clearly the largest importer of pork at 783,000MT (CWE), or more than double Australia's production. Japan is only interested in exporters with the capability of sustaining significant volume on a regular basis.**
- 

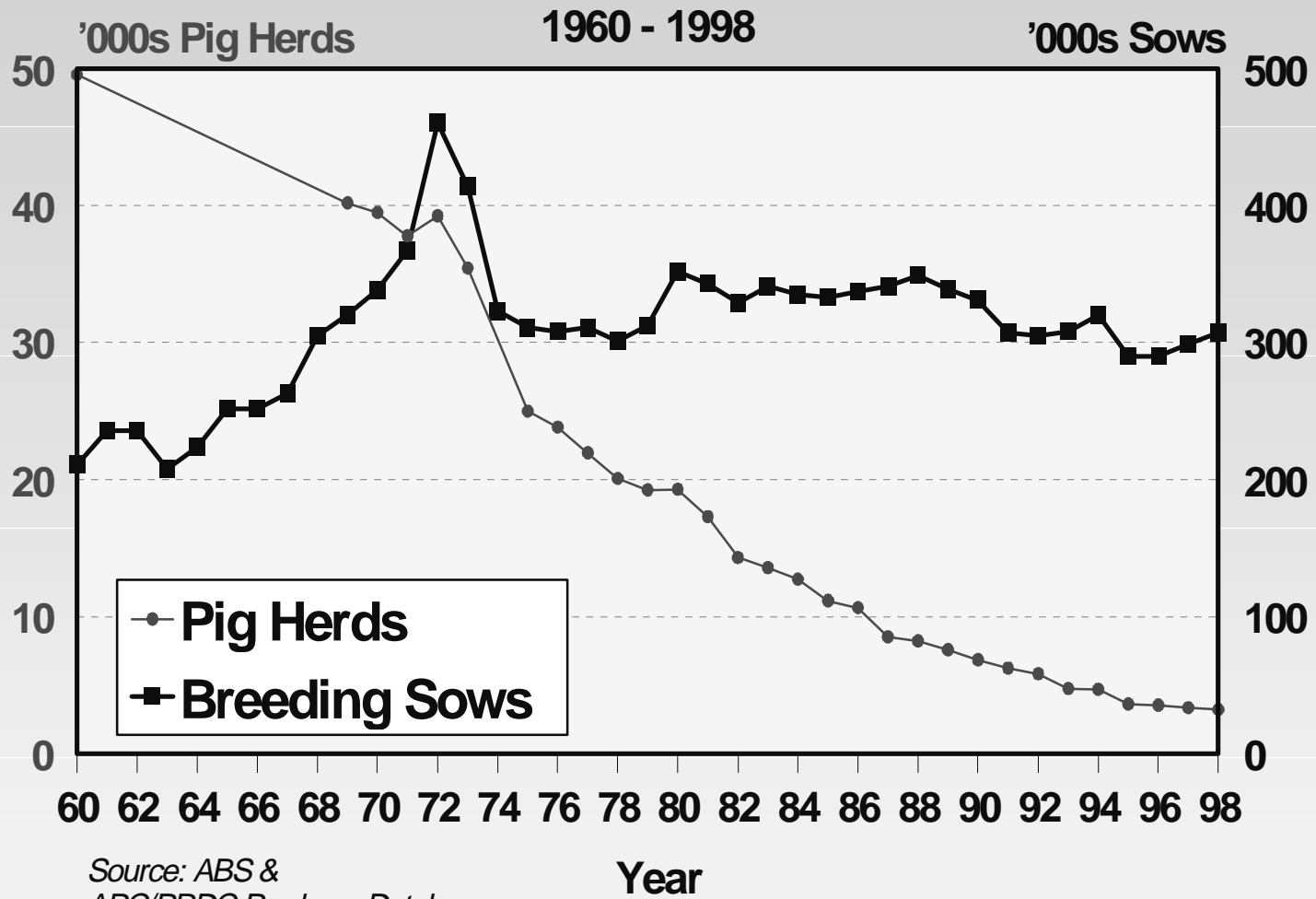
### **Restructuring (Chart 10)**

- **It has been suggested by some outside the pig Industry that the Industry has been slow in restructuring and rationalising.**
- **In its continual drive for efficiency over the years, the Industry has undergone massive rationalisation. From mid 1970's the Industry has reduced from 40,000 producers to the current 3,337 (Chart 10) while sow numbers have remained static. The Industry has got smart and organised itself. It has not relied on Government support or regulation and it is not subsidised. This restructuring will continue.**



# “The pork industry has restructured”

## Number of Pig Herds & Breeding Sows



Source: ABS & APC/PPDC Producer Database

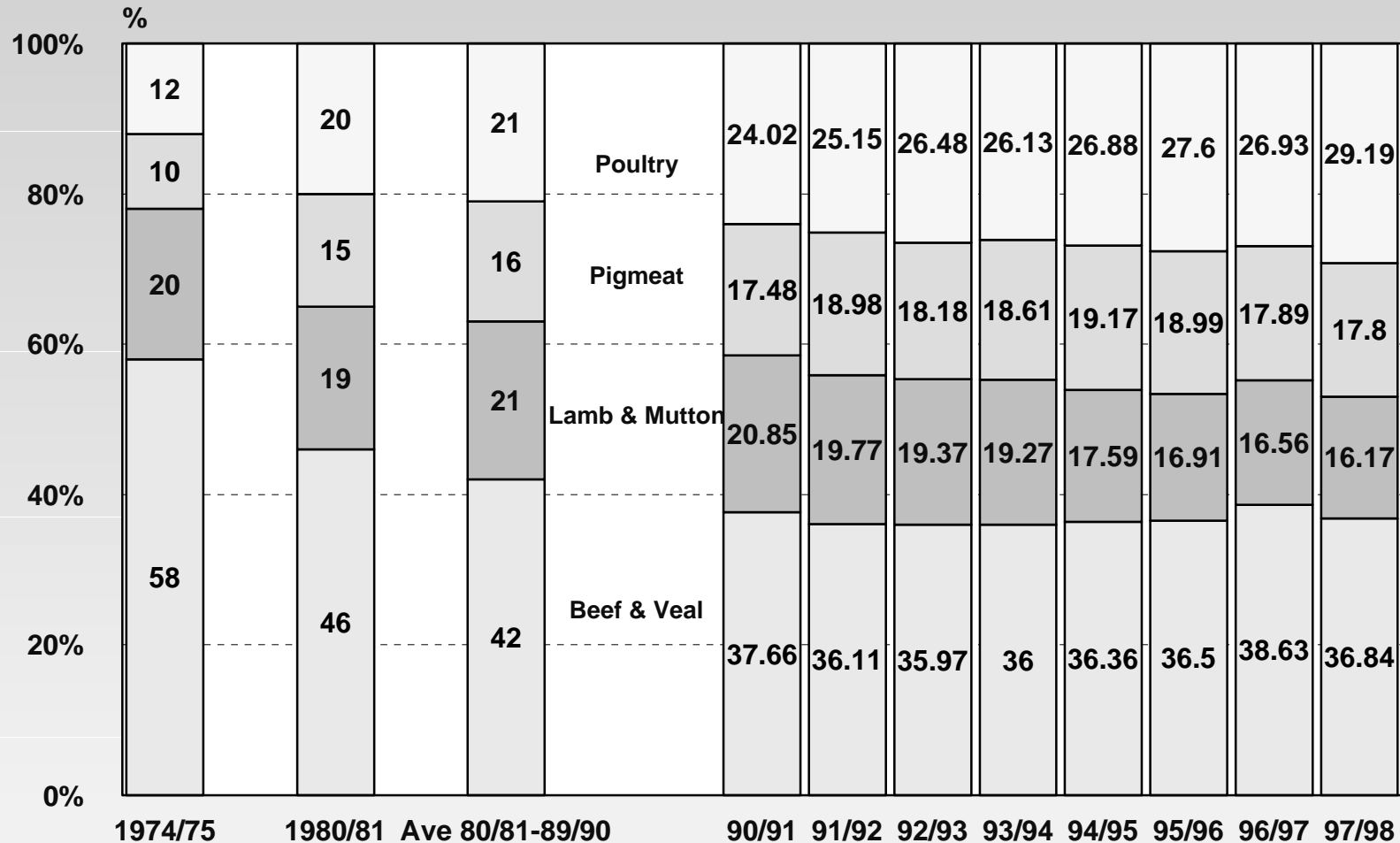
## 3.6 Other Factors

### ☐ Market share (Chart 11)

- **The Industry over the past 25 years has increased its share of Australian meat consumption from 10 to approximately 17-19 kg per person in recent years. The recent drop in share was a result of drought in 1994 causing extremely high feed prices during 1995, which led 1000 producers and 30,000 sows to vacate the Industry.**
- 
- **Recent slaughtering levels indicate that consumption will return to the 19 kg level as sow numbers increase, providing there is not a massive fallout as a result of current prices.**
- **Clearly pork and chicken have been the shining lights of the Australian meat Industry over the 25 year period capturing market share over red meats through excellent Industry rationalisation driving quality, innovative marketing campaigns and a focus on health**
- **The Industry is helping itself and managing its own future with a clear focus on competitiveness**

**“Pork and Poultry through innovation have been the shining lights”**

**Indicated Market Share Percentage**



Source: ABARE

## 3.6 Other Factors

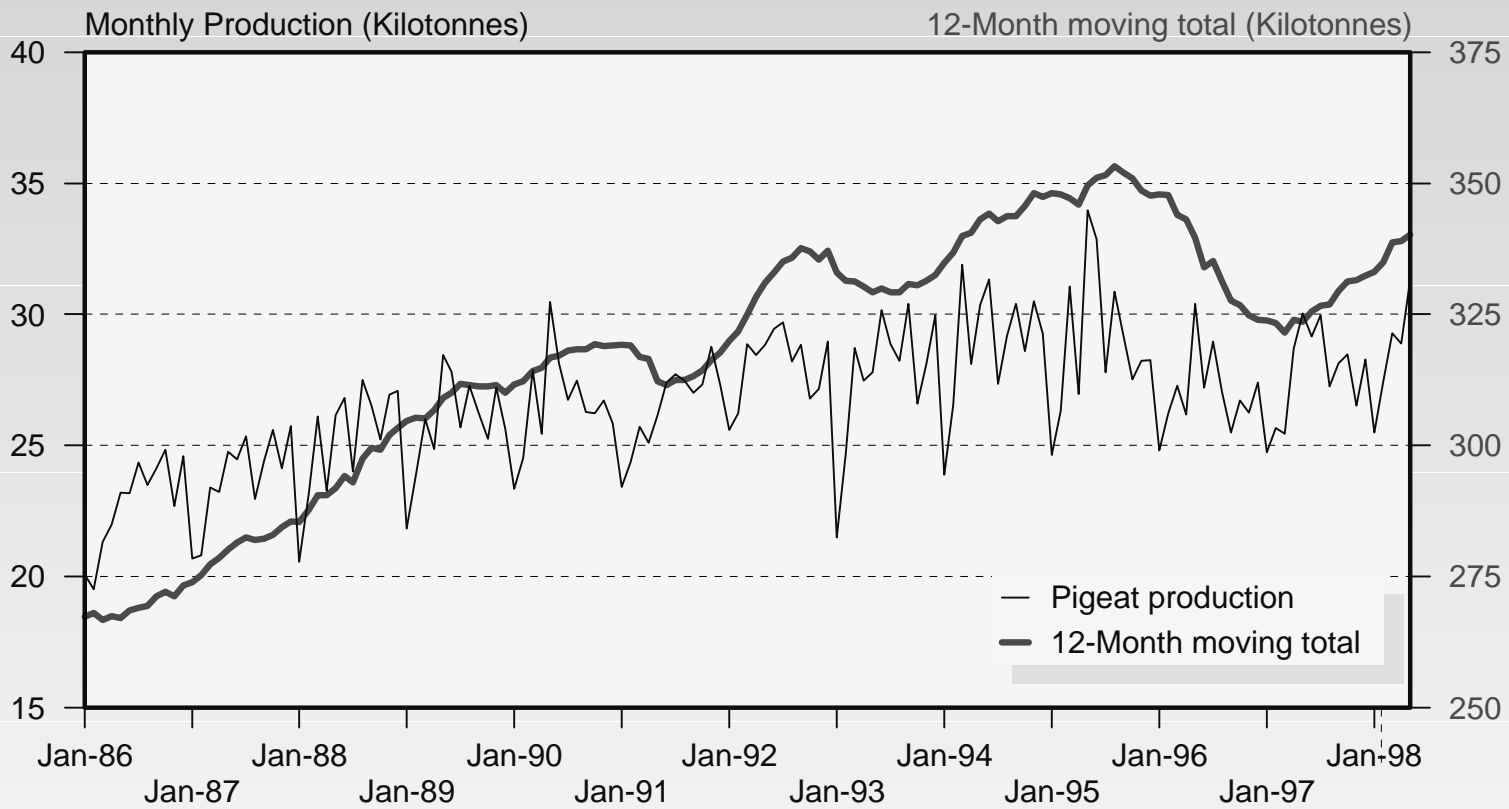
### □ **Production and productivity (Charts 12 & 13)**

- **Production has increased from 230,000 MT in the early 1980's to approximately 330-340,000 MT in the late 1990's with a similar sow herd (around 300,000). This further exemplifies the massive productivity gain the Industry has achieved.**
- 
- **Furthermore Charts 12 & 13 demonstrate the Industry is not currently overproducing with regard to recent years production levels, as some outside analysts have suggested.**

# “Domestic production lower than historical levels BUT price falls”

## Monthly Pigmeat Production

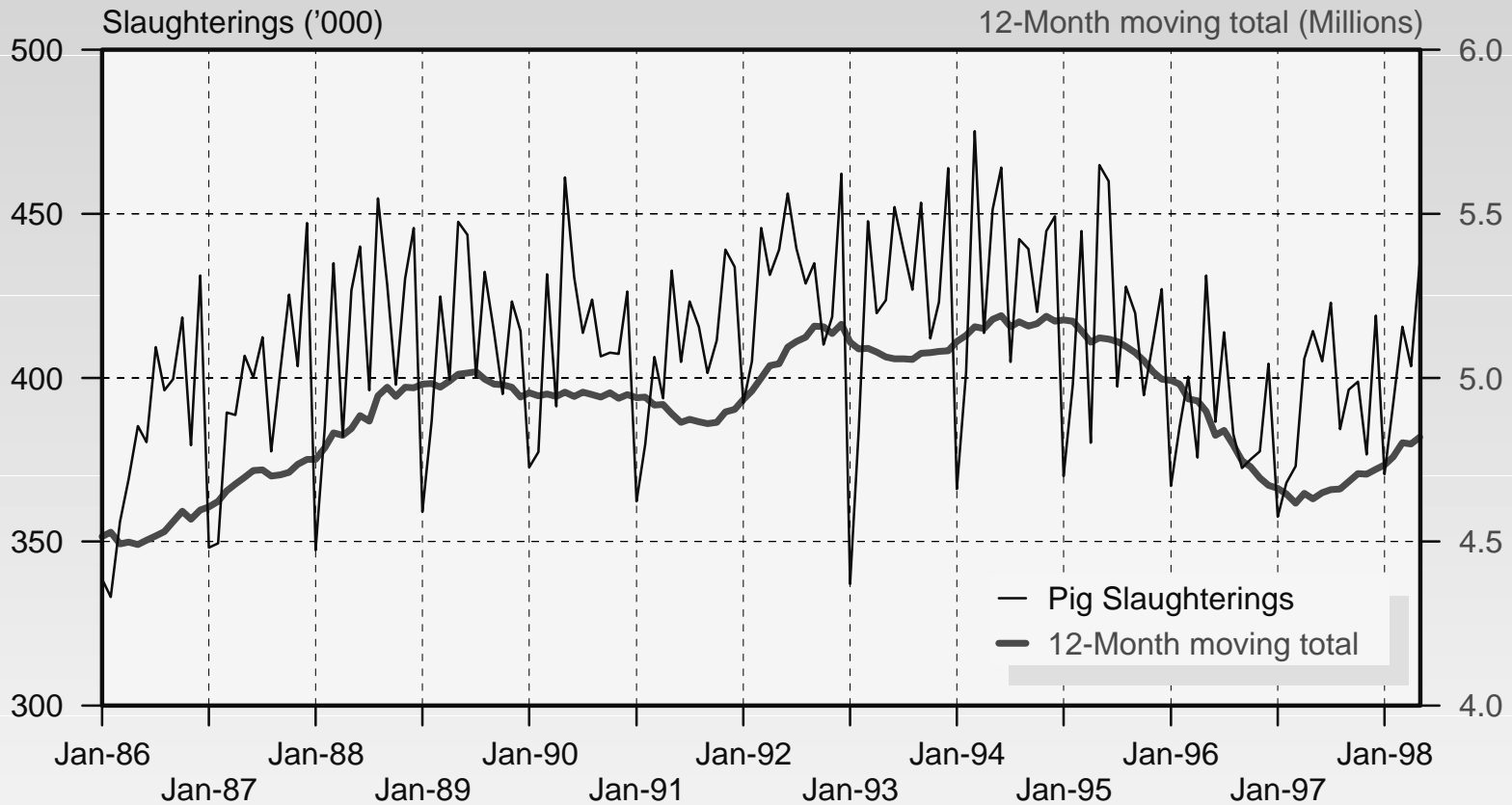
January '86 - May '98



Source: ABS

# “Domestic production lower than historical levels BUT price falls” Monthly Pig Slaughtering

January '86 - May '98



Source: ABS

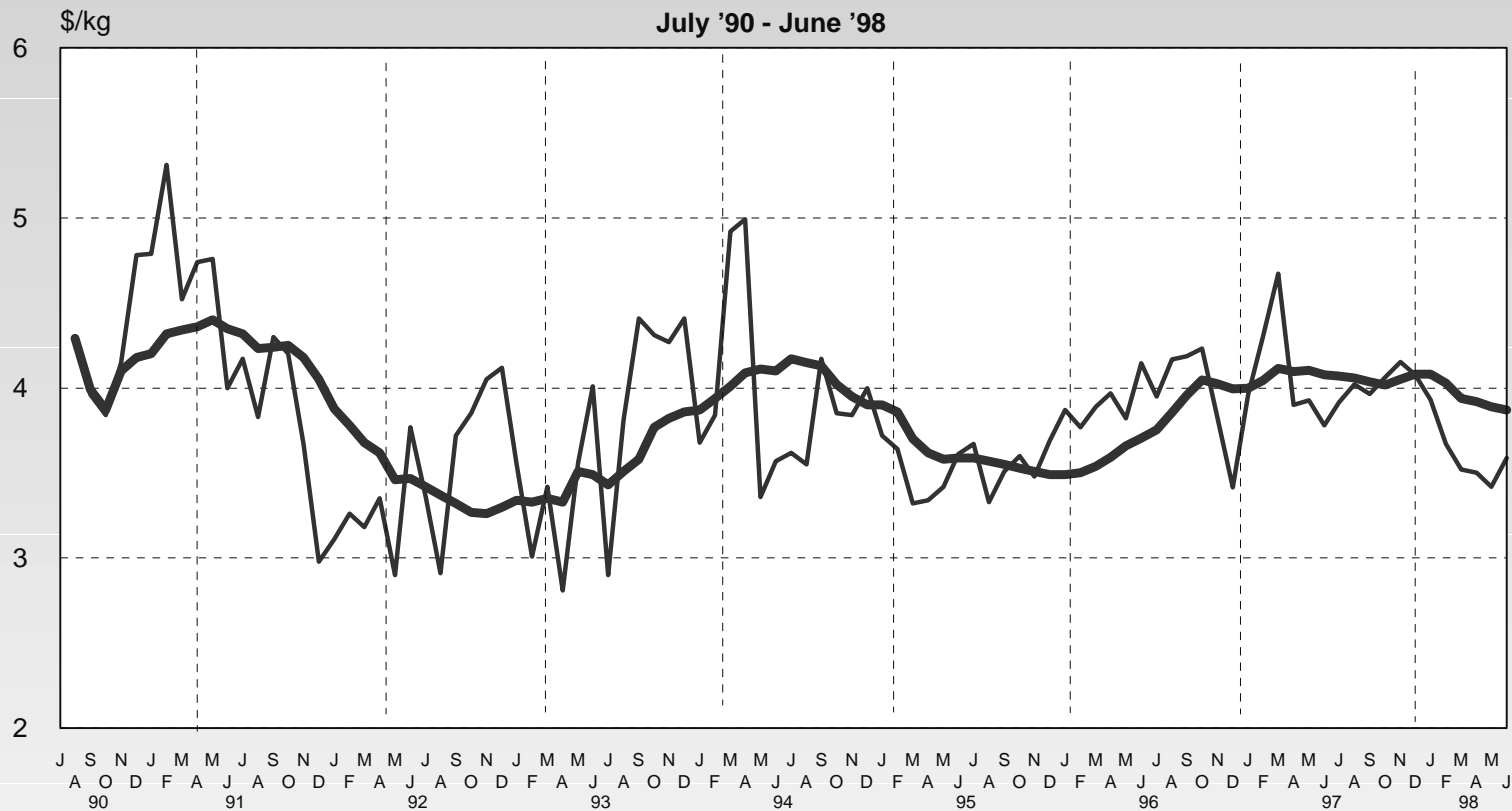
## 3.6 Other Factors

### □ Price of pigmeat imported from Canada vs \$A/\$CAN (Charts 14 & 15)

- **There has been public speculation that the pork Industry has had a “defacto subsidy” due to exchange rate decline. That is, the cost of the Canadian legs should have risen to the Australian importers.  
Clearly, as Charts 14 and 15 demonstrate, this is not the case and in fact the price in recent months has declined.**
- **There is no commercial evidence to suggest that recent exchange rate movements have altered the commercial reality that the surge of Canadian boneless leg imports will return to the “normal levels” of pre 1996.**
- **It could be argued that had the Australian Dollar not weakened against the Canadian Dollar then imports would have been higher, thus causing more devastation.**

# “Prices of imports have eased over recent months”

## Price of Pigmeat Imported from Canada

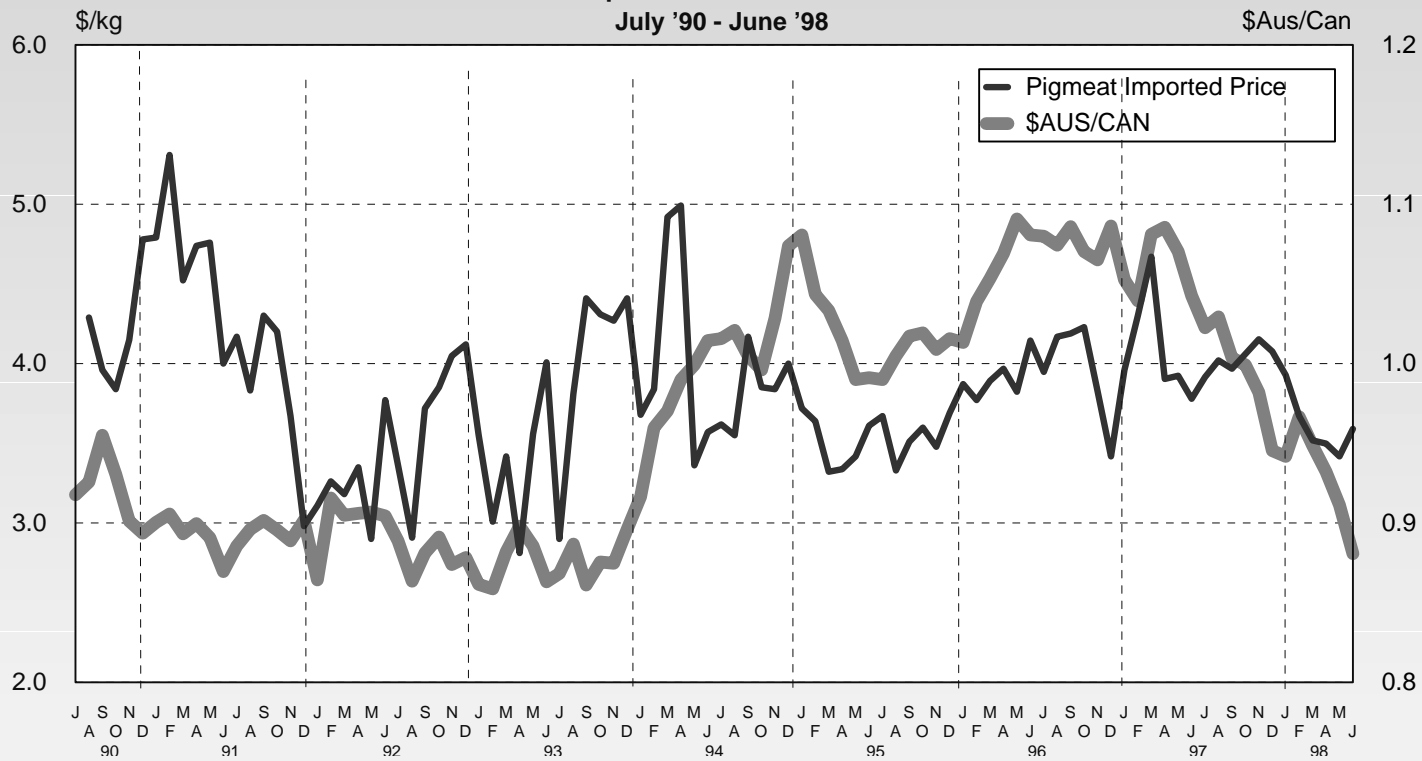


Source: ABS



**“Exchange rate variances unfortunately have had no impact on increasing imported prices”**

**Price of Pigmeat Imported from Canada  
VS  
\$AUS/CAN**



## 3.6 Other Factors

### Beef Substitution

- There has been suggestion that cheap beef has played a significant role in the current pig price crisis.
- Firstly, in the manufacturing segment we would strongly contend that this is not the case. Our own experience with Don Smallgoods clearly indicates beef substitution is minimal.

For the past 3 years Don Smallgoods averaged 15.2% of beef in its total meat utilisation.

1996	-	15.98%
1997	-	15.57%
1998 (YTD)	-	14.15%

Don Smallgoods also declares that the maximum substitution (regardless of price) of beef for pork would take this figure to 17%.

It is also worthy of note that beef substitution at Don has in fact slightly decreased from 1996.

## 3.6 Other Factors

### ☐ Beef Substitution

- Secondly, the National purchases of fresh pork at both the retail butcher and supermarket has increased as clearly evidenced in the table below. If beef was substituted then it would be reasonable to assume that purchases at this fresh retail level would have declined.

<b>National Fresh Pork Purchases</b>	
<b>Total Fresh Pork</b>	<b>Volume (MT)</b>
<b><u>Butchers</u></b>	
Year ending May 1998	62,365
% change on Year ago	+ 2.8%
Year to date Jan - May 1998	26,659
% change on Year ago	+ 6.8%
<b><u>Supermarkets</u></b>	
Year ending May 1998	34,793
% change on Year ago	+ 5.8%
Year to date Jan - May 1998	14,184
% change on Year ago	+ 11.5%

## 3.7 Safeguard Measures

**BMI argues that imports have had an adverse impact on BMI and Industry as evidenced by:**

- a. historically low prices during 1997/98**
- b. as a consequence of (a), profitability has fallen to unsustainable levels.**

**Recommendation**

- Imposition of a Temporary Tariff Quota (TTQ) for 4 years on pigmeat imports set at 4000 MT per annum.**
- Volumes in excess of 4000 MT to have a duty set at \$2/kg.**

## 3.7 Safeguard Measures

### Adjustments

- **It is apparent to BMI that the Industry could manage the level of imports up to the mid 1996 levels, ie around 3000-4000 MT pa which equates to 7.5%-10.1% of legs used for leg ham production.**
- **This 4 year TTQ would allow sufficient time for BMI to expand its existing slaughter capacity, but more importantly will allow BMI to expand its boning operation from which exports will originate. Our plan is by the year 2002 to have up to 25-30% of our production going export - we currently export 12%.**
- **The capital required to upgrade both our abattoir and boning room will be in the order of \$5 million.**
- **The additional ongoing employment required to service this upgrade and increased capacity will be approximately 70 people.**
- **BMI's pig production facilities will require significant investment in major structural change to piggery flows to convert continuous flow production systems to the newly developed multi-site production systems. Cost handicaps such as disease can be eliminated or at least managed to minor impact levels.**
-

## 3.7 Safeguard Measures

### Adjustments

Completed last year was the first of two stages to revolutionise the production processes.

From 1996-98 expenditure of more than \$27 million was invested in the conversion of old production assets into specialised facilities for the management of adult stock and the construction of new facilities for the growing out of progeny.

As a consequence 66 new jobs were permanently created by this investment together with the expansion of investment by contractors in tied production facilities.

The second of these investments requiring \$18 million of capital and creating a further permanent 40 jobs has been deferred due to the current circumstances, however should appropriate Safeguard Measures be implemented, then this would provide BMI the time to proceed with this investment.

This 4 year TTQ will allow time for registration of vaccines and other veterinary products which are currently available to international producers.

## 3.7 Safeguard Measures

### □ Adjustments

**It will also provide time for BMI to develop domestically in areas of:**

- **retail ready packs**
  - **speciality pork outlets (Lenards)**
  - **developing fast food products**
  - **further penetration into food service.**
- **Furthermore, should the current profitability crisis continue in the pig production sector, then the expansion plans of Auspork, Danpork, Darling Downs Bacon, Hurstbridge and Westons may well be placed on hold or abandoned. This would be a tragedy given the window of opportunity that has emerged in Japan.**
  -

## 3.8 Factors affecting profitability and competitiveness

### Input and overhead costs

- **Feed is the principle cost in any pork production business.**
- **Feed represents 60-70% of total cost. At BMI feed currently represents ... of the cost of production.**
- **North America has a marked advantage over Australia in this area, particularly with the use of maize and feed grains specifically targeted at the intensive livestock Industry.**
- 
- **Feed grains is an issue for Australian growers. Australian pork producers are disadvantaged by the continued existence of statutory trading boards such as Australian Wheat Board (AWB).**
-



## 3.8 Factors affecting profitability and competitiveness

### Input costs

- **The Government's continued support of boards such as the AWB inflates the price of grain on the domestic market which discourages diversification of the grain Industry and prevents value adding to our grains by Australia's livestock industries.**
- 
- **In contrast the USA and Canadian Governments encourage competition within the grain industries and value adding to grain via pig meat production.**
- 
- **Pork producers are also prevented access to the world's feed grain stocks by unrealistic phyto-sanitary (non-tariff) barriers which prevent the import of grains such as maize from the USA and wheat from both the USA and Canada.**

## **3.8 Factors affecting profitability and competitiveness**

### **☐ Input costs cont.**

**Another competitive disadvantage is the cost of meat inspection which is extraordinarily high in Australia. In North America the cost of meat inspection is borne by the public which should be the case if governments and the community want to enforce hygiene/health standards on businesses for the benefit of the consumer.**

## 3.8 Factors affecting profitability and competitiveness

### □ Business Size

- BMI is a very large integrated operator, however BMI's type/size is not critical is remaining competitive .
- Small family farms in their own right can remain very competitive particularly those that “home-mix” their feed requirement.
- Slaughtering sector: whilst there are a number of pig specialists where efficiencies are reasonable Australia will never get to the huge volumes and hence efficiencies, some USA, Canada and European plants operate. However, this is not seen as an impediment to our future.
- 
- Boning sector - this sector comprises:
  - (a) Boning rooms which are attached to manufacturers which would bone specifically for their own purpose.

## 3.8 Factors affecting profitability and competitiveness

### Business Size cont.

#### Boning sector cont:

- (b) Independent boning rooms unattached to slaughter facilities - this sector serves both manufacturers, retail and food service with a very small amount going export. These rooms are essentially family operated and generally are very efficient.
  
  - (c) Pork boning room attached to slaughter plants - effectively these are small in number. There are two key operators namely BMI ..... that have export rooms of this kind. As such BMI ..... are the major suppliers of frozen and chilled pork to Japan
- This is the key segment for further export into the Asian region. The three new proposed plants in Darling Downs, Danpork and Auspork have all stated export boning rooms will be attached to these new facilities. As such they too will be able to operate effectively in the export arena.

## 3.8 Factors affecting profitability and competitiveness

### Business Size cont.

#### Boning sector cont:

- However, should there be a large exodus from the Industry then this opportunity could be placed at risk.

- Stockfeed Sector:

- Australian pig growers who purchase their feed pay a considerably higher on-cost than Northern American pig growers. The average “on cost” paid by Australian growers ranges from \$28-33 per MT, whilst USA on-cost for prepared feeds ranges from \$10-20 per MT.

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- Should Industry shrink significantly then these on-costs will increase as critical mass diminishes.

- Australian pork producers who home mix can be very competitive.

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## 3.8 Factors affecting profitability and competitiveness

### Marketing and Promotion

- Industry provides this facility, through the Australian Pork Corporation and has played an integral role in the growth of pork consumption through the 1980's and early 1990's.
- 
- Individual operators do little in this area although businesses such as BMI are seeking to commence activity with branded ready retail packs.

## 3.8 Factors affecting profitability and competitiveness

### Research and Development

- **Industry provides this facility through the Pig Research and Development Corporation (PRDC). This organisation is world-renowned and has played a major role in establishing Australian pig production Industry as world competitive.**
- **BMI would spend more than any other operator in this area with a world class R & D facility and a team of world class technical experts. In 1997 BMI's expenditure on R & D was 1.6% of turnover. the latter will rise to 2.1% in 1998 which places BMI in the top 50 Australian companies in terms of R & D expenditure (see the Age August 11th, 1998).**

## 3.8 Factors affecting profitability and competitiveness

### □ Regulation and Taxation

- **The Industry comes under a number of regulatory authorities, but mainly the EPA from a pig production viewpoint, and AQIS for processing.**
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- **Whilst significant costs are incurred for EPA and its licences and EIS, Australia probably compares equally with North America and Europe. However, EPA regulations and costs vary between States and differ between large and smaller producers.**
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- **AQIS inspection charges on operators who “self inspect” all have to recover these expenses 100%. North American operators and some European operators receive this service free of charge - the consumer pays and this should be the case.**
- 
- **This cost to BMI is currently in the order of \$2.00/pig or approximately \$0.03/kg HSCW (\$1.8M annually)**

**BMI would see this as a clear subsidy to those countries who have this service provided by the tax payer.**



## **3.8 Factors affecting profitability and competitiveness**

### **□ Transport and Handling Costs**

- Given the distances travelled in Australia our costs are significant however North America would be in a similar situation.**

## 3.8 Factors affecting profitability and competitiveness

### Assistance to Industry

- **Apart from marketing, promotion and R & D, little other assistance is provided to Industry.**
- **The marketing component is fully funded by producers, whilst R & D is funded on a \$ for \$ basis.**

## **3.8 Factors affecting profitability and competitiveness**

### **□ Industry Structure**

- **The Industry over recent years has been streamlined to an R & D and Marketing and Promotion function with the Pork council of Australia (PCA) representing producer interests.**
- 
- **This provides the Industry with a well organised structure and allows strategic input from all key Industry participants.**

## 3.8 Factors affecting profitability and competitiveness

### □ Export

- **BMI has been the leader in this area with exports dating back to 1986.**
- **More recently with foot and mouth entering Taiwan a window of opportunity has arisen to access the huge Japanese market. Japan is by far the largest importer in the world, importing double Australian production in total.**
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- **The export market over the past 10 years has been highly competitive with many exporting countries having significant subsidies - this has been one of the key impediments in Australia's ability to have an historic export focus.**
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- **Furthermore as Japan is the key country to focus they also have a complex gate price system which is set to protect their indigenous pig farmers. Most other Asian countries have some type of tariff system in place.**

## 3.8 Factors affecting profitability and competitiveness

### □ Product Quality and Development

- **BMI is one of a few operators in the world able to ship product into Asia in chilled form by sea. BMI is able to guarantee 45 days shelf life to its customers. This is a consequence of BMI's unique growing, slaughtering and boning operation at Corowa which has a hygiene status second to none in the world.**
- **Given BMI's uniqueness with chilled product, we now have a "Bunge" branded product on the shelves of a number of Japanese Supermarkets with merchandising material to support. The Australian Pork corporation (APC) has assisted with this material.**
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- **BMI has been a leader in the development of boxed pork domestically and is well positioned to take on the next step of retail ready packs as and when demanded by the supermarkets.**



## 3.8 Factors affecting profitability and competitiveness

### □ Vaccine Technology

- New vaccines that have been registered in North America and UK (eg. Mycoplasma vaccine) are required to undergo a lengthy registration process in Australia.

**This results in Australia often being up to 2 years behind our international competitors.**