



PIC Australia

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Pigmeat Inquiry
Productivity Commission
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Dear Commissioner

Submission to the PC Inquiry into the Australian Pig Meat Industry

This is a submission from PIC Australia Pty Ltd to the Productivity Commission Inquiry into the Australian Pig Meat Industry. In this submission, I wish to address among other things, issues relevant to the sustained profitability and competitiveness of our business, including the damaging impact of imports on the industry and the need for appropriate trade measures to be implemented to benefit the Australian pig industry.

Company Overview

PIC is Australia's largest pig breeding company with operations in all states of Australia. The company, PIC, was established in the United Kingdom in the early 1960's and has been in Australia since 1974. It was formerly owned by Dalgety PLC then Elders IXL Ltd and most recently held in private ownership. PIC is present in over 30 countries worldwide and is a market leader in the provision of new genetic technologies to the pork industry.

The company was founded on solid well established principles of genetic improvement and has continued to grow and develop by remaining steadfast to the proven technologies and scientific principles of genetic improvement and pig production. Please refer to WWW.PIC.COM for further information on the company.

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In order to remain cost competitive a pork producer must embrace several core parameters of pig production, namely: (but not limited to):

- PRODUCTIVITY PER SOW,
- PRODUCTIVITY PER DOLLAR INVESTED,
- ANIMAL HEALTH STATUS,
- ANIMAL THROUGHPUT PER YEAR ,
- CARCASS QUALITY,
- CARCASS YIELD,
- FEED CONVERSION EFFICIENCY
- COST STRUCTURE AND COMPETITIVENESS
- CONTINUED IMPROVEMENT IN ALL MAJOR ASPECTS OF INTENSIVE ANIMAL PRODUCTION.

Genetics are the core of any animal production system. The pork industry compares well with other intensive industries in this regard. In Australia PIC has benchmarked its genetic programme with leading breeding programmes from the northern hemisphere in order to ensure it remains internationally comparable and competitive.

The key outcome of PIC is to allow a pork producer, who invests in a genetic programme, to continue to remain competitive, and most importantly, profitable during the various and inevitable cycles of the Australian pork market.

Australia does not currently permit imports genetic material. Accordingly, the company must remain competitive and linked with its international trading partners to enable the Australian producer to compete with imported pig meat products or alternatively, to be able to export product at a competitive price.

This is a free market philosophy which we endorse.

However, to import pigmeat from countries which openly subsidise its pork industry (EU – Denmark) and then allow that imported product to threaten the animal health status of the Australian herd is unfair of the government of the day.

Therefore the pork industry seeks some ‘breathing space’ with the proposed imports to adjust to the new environment.

Unimpeded imports of pig meat will devastate the health status of the national herd, thereby increasing cost of production per kilogramme and further eroding international competitiveness of the Australian industry.

IS THAT WHAT A GOVERNMENT WANTS FOR ITS PEOPLE?

In gross terms , PIC commercial pig production profitability has declined since 2000 despite significant re – investment in new production and feed technologies to counter this trend. PIC has invested significantly in commercially relevant and cost effective

animal production technology over this period. We would welcome a site visit to the facilities to inspect this investment.

It outsources key veterinary and nutrition service requirements to ensure it remains up to date and commercially competitive in these important areas.

There comes a point when further investment does not reach acceptable ROI criteria.

As a consequence dis-investment is happening presently in the Australian industry. The government seems content to allow existing investment to decline until the pork industry reverts to a small domestic industry supplying a smaller and smaller percentage of the basic food needs of the Australian population.

PIC has significant risk management strategies and policies currently in place to counter the cyclical and irregular trends in the pork market. These relate to

- cereal grain location and procurement;
- major ingredient purchasing strategies;
- training in and adherence to risk management principles ;
- alliances in buying and selling key raw materials and products;
- real time record systems to enable rapid response to regular variances in production and pricing;
- benchmarking programmes with other large pork producers;
- staff training programmes;
- quality assurance programmes including ISO 9002;
- frequent liaison with international pork production companies involved in similar businesses;
- Constant maintenance and improvement to on farm animal health status, thus permitting better feed conversion efficiencies, better growth rates of progeny stock, lower use of therapeutic antibiotics, more uniform productivity standards, and an easier system to manage by trained staff, producing healthy, nutritionally sound pig meat;

PIC could mount a strong case for the importation of the latest pork genetics in this forum. This would enable the Australian industry to access larger genetic pools and therefore improving the genetic diversity of the current pool in Australia. PIC does not feel that this is the appropriate avenue for such a discussion.

A key issue for pig producers is the short term outlook of the industry and its future sustainability given recent and current difficult economic circumstances. Falling import prices and increasing import volumes when combined with market distortion, structural inefficiencies in the supply chain and the composition of the pork market, have effectively capped domestic prices and limit pig producers ability to recover costs. As the processed market and the fresh market are inextricably linked, any artificial downward pressure placed on pork product supplied into the processed sector in turn has a similar price lowering effect on the Australian fresh pork sector.

The difficult financial circumstances facing pig producers and the supply chain suggests that more substantial changes within the industry are needed, particularly further structural change for all sectors of the Australian pork industry supply chain but that this can not occur in isolation and will need government assistance, including appropriate trade measures such as a safeguard action. If the Australian pork industry is to

substantially improve its global competitive position, it must be given the breathing space to enable adjustment to build the necessary competitive momentum to realign the supply chain and compete effectively with imports. At the very least the Australian Government should agree to carry out a safeguard investigation.

I would be happy to discuss any matters raised in my submission with the Commission and can be contacted on 02 69 562105.

If so I would be interested in attending and/or presenting to the Commission in the public hearings scheduled for December 2004.

Yours sincerely

Paul O'Leary
Chief Executive Officer
PIC Australia