

8th October, 2004

Pigmeat Inquiry
Productivity Commission
Locked bag 2
Collins St East
Melbourne VIC 8003

Fax: 03 9653 2305
Email: pigmeatinquiry@pc.gov.au

Dear Commissioner

Submission to the PC 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 my farm business, including the damage and impact of imports on the industry and the need for appropriate trade measures to be implemented to offset the uncontrolled level of subsidized pig meat into Australia.

D A Hall & Co has been involved in pig production for the past 20 years with a current capacity of 3000 sows. Our business employs approximately 29 staff as well as external growout contractors for our total pig production. We have recently had to terminate two of our external growout contractors due to the changing markets and profitability, which has had a direct impact on the incomes of these contractors as well as their staff.

Our operation has seen a trend from profitability to a loss situation and has incurred losses for the past 2 years. Although high feed prices caused by the 2003 drought had some impact, the major reason for these losses was low prices caused by high quantities of imported pig meat. We will not be able to sustain such losses in the long-term and we will be forced to consider closing our pig operations if we cannot regain a degree of profitability.

Because a large number of producers have exited the industry, prices have recently improved. We believe this price improvement will be short lived as typically when ever there is a rise in the domestic price, processors increase their orders of imported product which subsequently puts downward pressure on the local price.

Although factors such as drought, fuel costs and wage increases have had a direct effect on profitability, ultimately the price received has been held down by Australian processors and retailers access to unlimited quantities of imported pig meat. The price paid by abattoirs and retailers is impacted by the volume of imports and to a lesser extent import prices. Any improvement in the domestic sell price tends to be short term as processors react by increasing their orders for imported product.

Our organization has an alliance with the CHM group and through this alliance we have undertaken to implement training, QA and other management practices all with the aim of improving productivity. We have also implemented technical and innovative changes as they have become available to the pig industry. This has been an ongoing project and we have seen improvements and benefits eroded by a declining sale price, impact of imports, and government regulatory requirements.

Our Company has also formed an alliance with a local Abattoir in an attempt to reduce the risk of dramatic fluctuations in price and implementing forward sale contracts. These have had a minimal effect and are generally available only for relatively short periods of less than 12 months.

We have always strived to increase productivity and reduce our cost of production but this has been limited to areas over which we have control. We believe we are a relatively low cost Australian producer.

Over the last few years our Company has seen a reduction in equity in our pig operation as funds have been used to cover losses incurred as a result of low prices caused by the open market policy allowed by the government.

In 2000 we gained approval for a major expansion to our pig operation which would have employed an additional 20 staff. This expansion has been put on hold, and unless we can see an opportunity for low cost producers in Australia to regain a reasonable level of profitability, we will not invest further capital in the industry.

We are also concerned about the threat of disease entering the Australian Pork industry because of the loose bio-security requirements allowed by Bio-security Australia. An outbreak of PMWS within Australia's borders would seriously damage the Australian pork industry with an epidemic being estimated to cause a 15% increase in the cost of production. The Australian pork industry is struggling against the appreciating value of the dollar, rising costs and the impact of imports. In light of these factors an outbreak of PMWS would be devastating.

The effect of unrestrained and often subsidized imports has seen the recent exit of producers with the loss of 30,000 sows nationally. Our business is situated in a rural area and closure of our pig operation due to unsustainable losses would have a dramatic socio-economic impact on our area. Unless the government is prepared to

restrict the level of imports to give the pig industry some breathing space, we foresee a bleak future for our business as well as the national pig meat industry.

Given recent and current difficult economic circumstances, a key issue for pig producers is the short to medium term outlook of the industry and its future sustainability. Australia is a small and finely balanced market and can be easily manipulated. Access to unlimited volumes of imports has effectively capped domestic prices and limited pig producer's ability to cover costs. The current situation has led to a **revenue squeeze cycle** in which low prices force producers to leave the industry which ultimately causes a shortage in supply and a rise in domestic prices. Processors and retailers react by increasing the level of imports, domestic prices fall and the cycle begins again. As the processed and fresh pork markets are inextricably linked, any artificial, downward pressure placed on pork supplied into the processed sector has a similar price lowering effect on the Australian fresh pork sector. Unless the volume of imported pig meat into Australia is in some way controlled, it will not be possible for local producers to survive in this corrupt market.

The difficult financial circumstances facing pig producers and the supply chain suggests that more substantial changes within the industry are needed. In particular, further structural change is needed for all sectors of the Australian pork industry supply chain, but 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 time to adjust and build the necessary, competitive momentum and realign the supply chain to compete effectively with imports.

I am keen to discuss directly with the Commission matters raised in this submission. If the Productivity Commission is interested I am also willing to provide financial and production data on a confidential basis. I am also interested in attending the Commission's public hearings scheduled for December 2004

Yours sincerely

Simon Hall

General Manager D A Hall & Co