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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 Cameron Pastoral Company 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 my farm 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.

1. Farm Structure and Activity

Cameron Pastoral Co have been involved as a producer in Pork Production for 21 years. We run approximately 5500 sows with a total stock inventory of approximately 62,000 head. We increased the herd by approximately 2000 sows in 2002 principally to service demand by our customer in Japan.

Our average carcase weight has reduced from approximately 91Kg to 83Kg over the last 12 months as a direct result of changing terms of trade between Japan and Australia which in this trade is heavily influenced by the price of imported product.

We employ a total of 68 people in our piggeries and integrated feedmilling and transport enterprises.

Labour is our second largest input cost after feed and as such will be one area where we need to focus for potential cost savings however believe our labour cost per unit of production is competitive.

[in confidence material removed]

2.1 Prices and Production

- Average sale price ; '04 \$1.90, '03 \$1.85, '02 \$2.46 (HSCW).
- [in confidence material removed] Production costs in 2002 & 2003 are skewed due to our herd expansion and therefore may be misinterpreted.
- Productivity is now being negatively influenced by the low levels of profitability and the resultant inability to maintain facilities in an optimum state. Additionally due to the accelerated rate of foreclosures of pig production enterprises and the lack of job security it is becoming difficult to both attract and retain suitable personnel.
- Unless the current uninhibited flow of often subsidized imports is limited in some way we expect that the artificial oversupply situation will be maintained, profitability will be held at unsustainably low levels and herd shrinkage will be inevitable.

- We continuously strive to increase output and reduce costs. Our total production system inclusive of the Feedmill is ISO 9002 accredited, we are members of the CHM / Hans supply chain. By operating our own Feedmill we are controlling as best able our major input cost whilst having an equity participation in Swickers abattoir and membership of the CHM / Hans supply chain ensures we are well placed with our markets and prices received. We are developing within our supply chain tools to better manage price fluctuations and manage risk.

2.2 Contributing factors to farm profitability and competitiveness

The three major drivers of pork production profitability are, feed cost, rate of production and price received.

- **Feed Cost;**
Feed costs are most effected by;
 - (a). **Herd Feed Conversion (HFC)** which is a measure of how many units of feed it requires to produce a unit of pigmeat expressed in either carcass or liveweight terms. HFC is influenced by more factors than should be addressed in this submission however suffice it to state that well managed farms constantly focus on this as a Key Result Area. The Pig Industry currently has a submission before government for the establishment of a PORK Co-operative Research Centre (CRC) which has many initiatives to improve the HFC of the Australian herd. It is critical that the Pork CRC becomes a reality. Our company has recently installed (the second such commercial scale installation in the world) fermented liquid feeding (FLF) technology from Denmark which will improve our HFC dramatically, however as with most early adopters of technology we are experiencing start up challenges.
 - (b) **Raw Material Cost and Availability** – Australia always has an exportable surplus of grain however some regions often have a deficit in times of drought – this has devastating impact on the profitability of intensive livestock operations. If the government continues to allow the AWB to monopolise by way of a single desk there should be a mandatory minimum regional inventory of grain to be maintained by AWB to ensure supply to Australian end users in times of drought.
- **Prices Received;**
In a sustainable market free market forced control supply and demand. Conventionally if there is a supply shortage prices increase, profitability increases, reinvestment occurs with resultant oversupply and depressed prices until the oversupply situation is corrected and on the supply and demand cycle continues. In this normal situation participants in the supply chain have an opportunity to conserve profits for the inevitable downturn. We currently have a situation where an oversupply situation can be artificially created by importers by increasing orders therefore we as producers are largely denied any opportunity to make profits in order to build equity to allow sustainability through the times of loss – unless this oversupply situation due to imports is somehow regulated we will not have a sustainable pork industry. Whilst ever the Government maintains it's current policy on imports of pork (based on a flawed Import Risk Assessment) inevitably the production capacity in Australia must shrink to a size which satisfies demand that can't otherwise be satisfied by subsidized imports. The government needs to address how this industry rationalization is to progress and take full financial responsibility for the casualties for which it's policies are directly responsible. Our expansion was largely based on the assumption we would continue to supply the increasing demand by our Japanese customer – imports are largely

responsible for this not coming to fruition. When a pig is grown specifically for the Japanese market usually a number of cuts are not demanded by the Japanese customer so those cuts are sold and priced on the domestic market at prevailing market prices. Due to similar cuts being available to the Australian processor from discounted imported product our residual cuts from the “Japanese pig” are priced at import parity which results in the average price received by the producer for the whole carcass being significantly discounted often to levels which yield significant losses.

Production Capacity;

Cameron Pastoral Company’s productivity will return to being amongst the top ten percentile in Australia once our herd stabilizes from our expansion.

Volume is critical in spreading fixed cost therefore to be forced to change from producing a 94Kg carcass for the Japanese market to a 72 Kg carcass for the domestic market increases our per Kg cost [in confidence material removed] (on a fixed cost reduction basis alone). It follows therefore that it is imperative that we regain competitiveness in the Japanese market or alternatively increase domestic carcass weights both of which are addressed in the industry strategic plan.

Under the protocols of the recently released Import Risk Assessment (IRA) an independent study by the CSIRO has assessed the probability of the Australian herd being infected by Post Weaning Multi Systemic Wasting Syndrome (PMWS) of being between 95% and 99%. Based on information from other countries where PMWS is endemic we would expect our cost of production to increase by approximately 15% which would be to our major detriment and reduce our competitiveness against other countries to unsustainable levels. **The decision by the Government to allow imports with the prevailing protocols must be reviewed as a matter of urgency.**

3. The wider socio-economic impacts of your business.

We believe we are the largest private employer of permanent staff in our shire (approx 100) and the largest user of feed (approx 40000mt) in the shire and as such are an integral part of the socio economic structure of our community.

Our business is of a diverse nature (Irrigated Cotton, Beef, Dryland farming) however as pork production is a major part of our business and due to it’s non performance over the past two years largely due to imports and to a lesser extent drought our total business is precariously balance due to our diminishing equity. Financial institutions classify piggeries as “specialized security” ie they have little or no value other than for the purpose for which they were constructed unlike land where generally the asset may be utilized for several purposes eg grain, wool, beef production or any change to the enterprise mix. Piggeries if operated efficiently either do or don’t generate profits and there is limited scope to change what we produce in order to move from a loss situation to profits.

There have been many pork production operations fall casualty to the recent cost price squeeze with unpaid creditors many of which have been financial institutions, which has resulted in a nervousness and lack of willingness to provide further operating capital to pork producers. The government must make some structural changes to give both the finance and production sectors confidence in the future of the pork production industry.

4. Industry outlook and enhancing competitiveness

Ever increasing import volumes are destabilizing our industry to a point of non sustainability. We believe a provisional safeguard action is imperative followed by a new safeguard enquiry.

The single desk and it's negative effects on domestic end users must be reviewed.

Legislation to ensure sufficient grain is held in storage at export parity pricing geographically proximate to end users at all times needs to be duly considered.

If other industries are to be granted freight subsidies on fodder (which includes grain) with which we have to compete then similar subsidies should be forthcoming to our industry.

Our cost of production is I believe the 5th most competitive in the world and improving due to both our increasing efficiency and certain costs escalating in other countries eg cost to remain environmentally compliant.

5. Conclusion

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 0746 764144 or email ken@campastco.com.au. I am also interested in attending and/or presenting to the Commission in the public hearings scheduled for December 2004. My preference is to attend a meeting in Southern Queensland

Yours sincerely

Ken Cameron.

(General Manager – Cameron Pastoral Co)