

Preamble

Ludvigsen Family Farms commenced operations in November 1993 in a derelict and abandoned piggery at Snowtown in SA mid-north. We have developed a 1000 sow multi-site piggery committed to implementing world's best practice in all aspects of the business (pig husbandry, environment, welfare, human resource management, business structure, business management etc). Our current plan is taking us to 2500 sows by mid 2006 and 10000 sows by year 2010. We strongly believe there are great opportunities for us in this industry and for Australia to develop a new export industry to rival the rise of wine. It will require radical structural change in the industry but we hope that this submission can outline the path, the obstacles and how government can assist to help this infant industry to achieve the potential changed circumstances in Asia have created for us.

It is important to realise that this potential for Australia arises from the changed circumstances in Asia (rapidly rising incomes and an inability to produce pork themselves) and the inability of the rest of the pork producing countries to service the most lucrative segments of the pork market due to distance and the time it takes to get fresh product to these markets mean it can't be fresh.

The potential opportunity will only be realised if there is cooperation between producers and processors to develop sophisticated supply chains and with government to ease bottlenecks that occur with the process.

Structure and regional distribution of the industry

The Australian pig industry has been undergoing great change over recent years. The pace of that change is great and many of the current participants across all segments of the industry are unaware of the process and are failing to take the actions required to remain serious players in a new internationally open industry. The number of participants is rapidly reducing in all three sectors (production, processing and manufacturing). That process of consolidation and concentration is a natural process that is being accelerated by the emergence of the international economy.

Australia is changing from a closed domestic market in pig meat to an open international market. Many of the participants are struggling with this change and wanting to resist it rather than to embrace the benefits of free trade and take advantage of the opportunities it is and will create for our industry. Those that do embrace the change and alter their businesses will create the new pig industry. This inquiry has the opportunity to help smooth the path for the development of that new pig industry which has the potential to be Australia's greatest agricultural industry.

In our section (pig farming) our benchmarking tells us that we need a *minimum* of 2000 sows to compete with USA and Canada that is now their average farm size. Producers that are not close to those numbers and are not in the process of growing to that size will struggle to survive into the next decade. A more sensible approach, realising the process going on in the rest of the world, is to plan to have 10,000 sows by the year 2010 if we are to be involved

in freer world trade. There will be far fewer, much larger more serious players in the production process by that time but they will be world competitive. The farmers will be serious businessmen and women with similar procedures to any other large scale business enterprise.

In pork processing Australia is also undergoing rapid consolidation, in order to achieve the economies of scale required to compete in the world arena. Like the production sector processors have very small scale operations that must be changed to protect their industry. They are also moving from simply killing pigs and selling whole carcasses to further processing on site. The end point for this is preparing consumer ready products at the abattoir ready for delivery to the retail outlet domestically or overseas. That process is restricted because of the lack of boning and packing rooms, trained boners and packers and marketing.

In manufacturing the move has been increasingly to substitute cheap frozen imported pig meat for locally produced meat to produce ham, bacon and smallgoods. I see that process continuing into the future and it may end up close to 100% imported. That might not be as bad as other people in the industry fear provided we are able to change our product mix.

Australia is in a unique position as a pig producing and processing country and has some tremendous comparative advantage over the rest of the world industry in certain aspects of pig production.

AUSTRALIA'S COMPARATIVE ADVANTAGE IN PORK PRODUCTION

1. We have **nearness to large markets for fresh, chilled pork emerging in Asia that the Europeans and Americans (North and South) cannot service** because of logistics (distance and speed of transport). With the growing personal disposable incomes of some Asian countries and their preference for Pork (up to 70% of meat consumed) and high marginal propensity to consume food with rising incomes, Australia is in a unique position to supply pork to the most higher priced markets in those countries.
2. We have **high health pigs** that do not require the antibiotics etc to control the multitude of diseases that the rest of the world has. This will increasingly become a focus for Asia especially the people with money who are conscious of the risks to health.
3. We have a genuine advantage in **meat hygiene and food safety** over almost all our competitors because of our high health status and food hygiene laws. This is especially so in comparison to the other Asian countries that might sell fresh to Asia. Would anyone choose pork killed in a Vietnamese, Chinese, Philippine abattoir if food safety is an issue. This allows us to target the highest quality (price) segments of the large emerging markets. Our abattoirs are much more hygienic than their Asian counterparts and the high priced outlets will pay for that.

4. We have **white fat in our pork** from feeding Barley/wheat diets to pigs unlike the yellow fat produced by corn fed diets from USA. This white fat is preferred by many Asians and they will pay to purchase that.
5. We now have the **Adelaide –Darwin railway** that allows us to get large volumes of fresh pork to the doorstep of Asia in 41 hours. Hopefully we will be soon able to access the second leg of a trade route to the markets in Asia, either by fast boat or shuttle flights in cargo planes if effort is made to set them up by the governments and companies that financed the rail line.
6. Australia has **large land area suitable for pig production** not subject to great population pressure. Rapid expansion of intensive pig production if done in an environmentally responsible manner can be achieved.
7. Australia has a very good **temperate climate** in which to grow pigs.
8. If effort is made to consolidate with other high quality fresh food in **supply chains** to supply markets based on food safety, quality and consumer ready, a real advantage can be achieved.

Where We Can't Compete

Australia cannot compete with the Americans and Europeans in frozen pork and on price. Their numbers and carcass size allow huge economies of scale across the chain that produce prices far lower than Australia could achieve in the future. Many Australian producers are concerned that we can import some parts of the pig from overseas in frozen form at much lower prices than they can produce it here and believe it is due to subsidies. Their lower costs come from greater economies of scale in production and processing and that they sell the most expensive cuts of the pig to the higher priced markets of the world. Their lower costs also come from the fact that their input price of grain is generally much lower than ours due to the competition they have in grain markets.

The Australian domestic pig market is a market for the cuts that do not have high prices in other parts of the world (eg legs).

However it is my contention that Australia

1. should not be seeking a market for frozen pork in Asia nor competing in the world commodity market for pork with our fresh pork as we have done in the recent past.
2. can't really compete in our domestic market with imported frozen pork for processing.
3. should concentrate on producing fresh pork for our domestic market and export high priced fresh pork to the most demanding consumers in Asia.

One thing Australians do not realise is that while the USA is the largest world exporter of pig meat it is also one of the largest importers of pig meat. So it is with many products. Australia is an exporter of oranges and an importer of oranges, it is an exporter of seafood products and an importer of seafood products. I believe free trade will allow us to export pig meat to the USA as well as receive imports from it. I see cheap frozen legs and middles coming in to Australia but markets for Australian ribs emerging in the US market that they currently import

from Denmark. The USA carcass is too big to produce the size ribs their market seeks and this is an opportunity for Australia because of our smaller carcass size. It is my contention that Australia should continue to import cheap frozen product for processing and supply our own domestic fresh pork market and also export high priced fresh pork to the most demanding consumers in ASIA.

Trends and factors influencing demand and supply

Consumption

Demand for Australian fresh pig-meat products is rising domestically on the back of high prices of lamb and beef. The current advertising campaign being run by APL is also timely and well targeted. We can do much more.

One alarming trend is that Australia has been exporting a large percentage of our female pigs because Asians will not buy our entire Boars because of boar taint (caused by hormones produced in the testicles). This limits our exports to 30% of production (replacements and boars make up the other 70%) but also means that almost all pig meat sold in Australia comes from boars. While not all boars have boar taint in the meat, a significant proportion do and it causes consumers great concern. Clearly boar taint caused by leaving males entire has a negative impact on sales domestically and internationally. Australians need the juicy flavour of moisture enhanced pork and further consumer ready products rather than a chunk of meat. CSL has developed a product, Improvac, that removes boar taint by immuno-castration and Australia has been reluctant to use it. I believe you should recommend that Australia embrace castration of male pigs as a precursor to export.

Production

Australia is losing domestic markets for processed products (Ham, Bacon etc). Currently around 50% of that market is coming from overseas. I believe that trend will continue because we cannot compete in that product area. However our domestic fresh market is protected by distance and the cost of transport as well as our strict quarantine laws and hygiene advantages. Australia is moving towards more fresh sales but we are not value adding. So far our exports have been of whole carcasses rather than sending certain parts of the pig to the best market for that part. Eg loins to Japan, offal to Russia, necks to Korea, feet to China, bellies to Taiwan etc. there are at least two reasons for this. Firstly we do not have the capacity to process fresh pork due to lack of boning rooms and trained boners as well as lack of packing facilities and trained packers. Secondly we do not have a well developed marketing sector of our industry.

Imports

Australia imports frozen pigmeat (Primarily Danish middles and Canadian legs). It comes in incredibly cheap compared to our cost of production. It is not suitable for the fresh pork market and does not compete there. With our current situation it tends to put a cap on domestic price of all pig meat, frozen and fresh. Long term I don't have much problem with

that if we leave the processed market to them and sell our pork overseas at a much higher price.

Clearly one of the great benefits of imports is to level out price fluctuations in the domestic markets. There is nothing more destructive in our market than for pork to be at a higher price on the supermarket shelves than competing meats. Imports, used constructively, can perform that function. They also serve to force Australian producers and processors to look at their cost structures and to ensure they produce cheaply. This is a good thing also. However we have struggled with the processors importing without regard to our own domestic supplies and they have at times collapsed our market due to their own lack of knowledge of their domestic suppliers production. Simple forward planning, like asking for weaning numbers on a weekly basis would give Australian processors a clear forward vision of their impending supply and a regular exchange of information between the producers and the importers would help alleviate some of the problems.

Exports

Australia has targeted the wrong export markets in recent years. We need to sell to the most expensive restaurant and service markets rather than the commodity markets. We made the mistake of selling a commodity to Singapore rather than a value added product. They abandoned our fresh, food safe product for a frozen, low quality product from China, solely on price.

One of the barriers to getting the right markets is that we have been forced to sell entire bodies rather than separate cuts because we lack boning and packing rooms at abattoirs. Boning rooms and packing rooms in the recipient markets have gained the value adding and on sold to other countries or sold them as commodities against frozen in low priced markets. It upsets me to know that some of the best pigs produced in Australia were sold to people who could not afford a refrigerator rather than to the more expensive restaurants service sectors.

Another barrier to entering new markets has also been due to the fact that our processors are too numerous for the size of our market and too inexperienced in import and export of product. Often exporter managers have come from within the business rather than draw in the strength from other exporting industries. They are selling to people with huge knowledge and market power and, because of their inexperience as export managers, have made poor decisions. We need to develop a strong marketing arm in our industry (like the wine industry has done) to put our products into these markets better. We also need people with more understanding of exchange rates and futures markets in the exporting arm of our industry.

We have also faced the difficulty of getting fresh pork to Asia by plane. We have promoted Airpork to Singapore but this trade is limited by the number of passenger planes that leave Australia for Singapore each week, and the cargo space available in them. Adelaide has 3 such planes per week. This avenue is not possible with the many other potential markets in Asia because we have no direct flights to most of them. We need to develop the Adelaide-Darwin railway and the second stage to Asian cities as soon as possible to access markets for all perishable goods.

The greatest contribution the government and this inquiry could make is

1. to help unleash our potential to value add to our exports by assisting the expansion of boning and packing facilities.

2. By assisting in the Darwin to Asia transport hub and getting the sea and air freight going for fresh produce and
3. by making recommendations on castration of boars.

Impact and effectiveness of government and industry programs

This inquiry should be keen to assist the efficient businesses in the pork chain to exploit the natural advantages Australia has in pork production by unblocking the obstructions. Lack of boning, packing, transport and marketing are our greatest difficulties.

The other serious problem we face are the assistance (protection) given to other agricultural producers in Australia. In particular grain which is our greatest cost. The commissioner should be aware that feed makes up between 60-70% of our total costs and those measures that reduce competition in the grains industry have great detrimental impacts on pork producers and all the other feed users in Australia (beef, chicken, dairy, sheep, etc). In particular quarantine laws that disallow imports of grain have allowed the grain industry to sell us grain at well above the world price during the recent drought. You should recommend to government that quarantine laws that restrict imports should require those receiving the protection to supply the product at the world price less the cost of transport. Otherwise strong groups will use quarantine as a method to raise the domestic price above the world price.

We need to be able to buy grain at the price our grains exporters sell to the rest of the world to be able to compete in domestic and world markets.

Profitability

The Australian pig industry has been through a very tough time recently. The Sept 11 incident and SARS virus devastated travel to Singapore and this had dire consequences for us. Singapore had become a major market for us and their loss of their tourism meant they cut purchases of our pork. That pork, remained in Australia to depress prices in our local market. Unfortunately the worst drought in 100 years then occurred and inflated grain prices that led to 18 months of feed prices that were 25% above the previous year. Normally the meat prices rise as a result of shortages of lamb and beef at the later stages of a drought because to make matters worse our \$A began its rapid rise from the low 50's to over 80c US. We lost significant market share in Japan and that meat also found its way into domestic markets.

The pork industry has had a rough time. Many producers have just made or will soon make the decision to leave the industry. Queensland and NSW seem to have been extremely hard hit by a more prolonged drought than we have had in SA and the collapse of Japanese markets had on some of their processors who stopped buying pigs.

Feed prices are a major problem for Australian Pork producers. In the recent drought grain producers in our region were able to have an average income year with a drop in production of 30-35% while pork producers were able to have a 25% below average income year while our production rose significantly. Grain growers were able to move their disaster on to us

and other grain/feed users. They were able to use quarantine as a method of protection to prevent us from importing grain to lower the domestic price to the world price.

The costs associated with Australia's food safety regulations and environmental requirements do add to our costs but properly exploited offer us great potential economic advantage into the best markets of the world. They will enable the pork industry to promote itself like wine does in the long term.(QUALITY, QUALITY, QUALITY)

Changes in productivity have been driven by economic forces in recent years. Increasing mechanisation of the production process and control by computer programs is just around the corner. (Ludvigsen Family Farms are doing it now and intend to lead the world on this). Economic forces will continue to drive productivity.

There is a minimum size for efficient farms and that size is growing rapidly. 2000 sows would appear to be the minimum required to be internationally competitive at the moment. Huge economies of scale are available in this industry. So it is with processing also. The bigger the kill the lower the unit cost with the same plant. Three shifts in an abattoir should be the norm to minimise unit cost. Yes increasing the size of enterprises will improve performance and this inquiry should look to assist that process. The best way to do that is to encourage natural economic forces to do their work.

Competitiveness

- Australia is a small player in the world pork market at present but I have outlined the comparative advantages it has in some areas of the market. We can be the main player in the Asian market for fresh, consumer ready pork for food safety conscious consumers
- China, USA, Canada, Brazil and Europe produce much more and have huge advantages in economies of scale that reduce their cost of producing and processing pork. We cannot compete with them in the commodity area. We can build large pig companies, just as the USA and Canada and Brazil have with government support and get fewer and larger processing works but we will struggle to get big enough to compete in the commodity area. In fresh pork that is able to guarantee meat quality to Asia we have a great advantage.

Pork has been the high priced meat in Australia for all of our history. The recent drought has changed that. For the first time pork is the cheap meat and will remain so for some time until stock numbers of beef and lamb recover. Lamb might not recover ground it is currently losing to pork.

Internationally, pork has always been the cheap one and is 42% of all meat eaten in the world.

Our most serious competitive constraint is the lack of competition in our primary input. Grain. (feed is between 60-70% of our total costs). Australia's feed grain industries are subject to the impacts of a lack of competition in the grains area resulting from both the single desk and the quarantine restrictions on importing grain. The governments decisions in the past that have made grain not subject to the control of the ACCC have had disastrous impacts on all feed grain user industries. We are not even able to bring the matter before the ACCC. When we see high domestic feed prices and low prices on the world market we are placed in a catastrophic position. Our competitors on the world market are buying at or below the world price and we are buying at well above the world price. They are then able to export cheaper product to our market and to take the markets we have in other countries away as well. What I believe should happen is firstly the end to the single desk and secondly a

commitment that if you ask for quarantine protection from diseases then you should not be able to sell above the world price. Quarantine should not be able to be used as a method of protection or a way to increase prices received domestically because of its impact on efficient producers down the production chain..

The factors that affect our competitiveness at all stages of the Australian pigmeat industry are Economies of scale, Economies of scale and Economies of scale

Since the last productivity commission great changes have occurred in our industry. Cleverly targeted money from that inquiry saw abattoirs able to become export accredited and exporting of pig meat really commence. That inquiry turned our industry around. However we have only been able to export whole carcasses in the last five years because we do not have boning rooms and packing rooms or developed supply routes and international supply chains. We watch our pigs killed and sold whole in a muslin bag to Singaporean buyers who then process the carcass in grotty boning and packing rooms and then export around the region. We need as a nation to capture the value added employment and revenue ourselves.

Over the past five years the number of abattoirs has reduced significantly as the weaker ones have found the competition too tough and the cost of proceeding too high. The consolidation will need to continue, probably reducing to two or three chains across Australia in order to gain the significant economies of scale required.

At the same time many small pig producers have also fallen by the wayside and the productivity commission should take note of this also. The USA and Canada have average piggery size of 2000 sows and Australia needs to recognise that this needs to happen here also if we are to be competitive. Adjustment assistance to pig producers leaving the industry should also be considered by the inquiry.

SUBSIDISED COMPETITORS

Unlike others in our industry I feel that it matters not whether our competitors are subsidised or not. We cannot control their governments. If we close one loophole though the GATT they will find another way to achieve the same end if that is what they want to do. A commitment to free trade will gain us the clearest advantage. It would reduce all our input costs, imported equipment, cars, trucks, clothing, footwear etc. The major reason Canada can sell pork legs to us is because no one else in the world except Australia wants leg meat. Australia is a leg market. Our legs are dear because we sell the middles cheaply. Once we cut up our pigs and sell the middles to the world market at much higher prices we will be able to sell the legs cheap also. This is simply a problem from not selling each part of the pig to the highest paying markets in the world. Boning, packing and exporting pork will resolve the so called issue of dumping.

Australia has too few really top people involved in all parts of the pig supply chain. This is a result of the long period of the closed domestic market we once had. New realities of open markets, free trade have been forced on us and we have been slow to react to the new opportunities that await us. University graduates, once unknown outside veterinarians on farm, need to be attracted to the new opportunities in production, processing and marketing. There is still a reluctance to recognise the need for such people but APL has been attracting such people and so have the best parts of the industry. Many still don't think they are necessary or that they cost too much. The businesses that can attract and retain such people will be the survivors. You should look at how such people can be attracted to this industry.

Measures to enhance competitiveness

Competition in the Australian pork chain is currently small due to the dominance of the two large retail chains. Realistically that is unlikely to change because the size of our domestic market is too small to have a significant third or fourth player. It is more likely that the big two will become even more dominant and have even greater market power domestically in the future.

The best way to have competition in our domestic market is to develop export markets of high priced fresh, consumer ready pork, prepared in supply chains that guarantee the highest food safety for the most discriminating customers. That will bring strong competition to our markets. We will effectively have many buyers from around the world placing competition into our market. Rather than being price makers we may see the big two become price takers, forced to compete for our fresh product.

Left alone these export markets may or may not be developed. The process may be outside the reach of the Australian processing industry at this stage without the guidance, support and financial backing of the Australian Federal and State Governments. If it is not done quickly, other events might cause it to never to be done and a huge opportunity may be lost for Australia.

The way a government should assist such a development is to assist the breakdown of the obstacles to developing these export markets.

My recommendations to the inquiry

1. That considerable thought be given to unblock the bottleneck in our move towards greater exports of fresh consumer ready pork for the high quality end of the Asian markets. That would mean large scale support to assist export accredited pork abattoirs establish and/or expand boning rooms, packing rooms and to set up supply chains that target the high priced, fresh, consumer responsive, food safety conscious markets of Asia which our competitors cannot service.
2. That you give considerable thought to assisting the development of pork exporting markets of the type above because they offer the greatest hope of reducing the dominance of the two large supermarket chains and bringing real competition into our domestic market.
3. That you give consideration to developing the Adelaide-Darwin trade route through to Asia. At the moment the produce can get from Adelaide to Darwin in 41hours but the movement from Darwin forward to Asian cities is not yet developed. Work should be done to set up the routes so that fresh high quality food (perishables) including fresh pork can be delivered swiftly and cheaply to Asian end users
4. that you give consideration to developing the export processing region at the Southern end of the Adelaide–Darwin rail to consolidate product for export. It may be a recommendation to the SA government on this issue.
5. My recommendation is that \$40-50 million should be carefully placed to encourage the best of Australia’s export-accredited abattoirs to develop boning and packing rooms and supply chains that can make all the things above happen.
6. Further I would recommend that how that money is distributed is also crucial. The committee distributing that money would need to be carefully selected.

7. I would like you to ensure people in our industry are made aware of the possible future and not encouraged to try and invest their way out of trouble. They should be informed of the likely future scenarios and assisted to be part of that future or assisted to leave with dignity if that is the best option for them.
8. I would like you to take some measures that help encourage our industry to attract quality graduates. It may be that grants of half salaries for 12 months for specific purposes would be an attractive way to encourage businesses to take them on initially and give them the exposure to our industry. Hopefully they could demonstrate their worth to their new employers once the 12 months is up. Summer scholarships.

MEAT QUALITY

1. I would like you to recommend that the industry take action to reduce boar taint in Australian pig meat. I would encourage you to make a recommendation that APL take a leadership role in making Immuno-castration or physical castration of boars a national standard.
2. I would like the inquiry to recommend that moisture enhancing of pig-meat be taken up by the industry in order to encourage consumption of pork.
3. I would like the inquiry to recommend that the industry produce more consumer ready product (value added) to extract a higher price for pork rather than chops, roasts, diced meat and sausages

COSTS & COMPETITIVENESS

1. I would like the inquiry to recommend that government make the grain industry subject to the same competitive forces every other business in Australia faces.
2. I would like the inquiry recommend that no Australian industry has a single desk.
3. I would like the inquiry to recommend that no industries use quarantine as a method of protection in the domestic market? (if they do want quarantine it should be mandatory that they sell at the world price less the cost of exporting)
4. Please recommend that government treat all industries equally so that helping one does not harm another.
5. Recommend the end to the grain single desk.
6. Recommend that quarantine not be used as a back door method of protection by the grains industry.