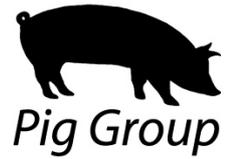




Victorian Farmers Federation



Pig Group

Submission to

Australian Government

Productivity Commission
in to the Australian Pigmeat Industry

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Victorian Farmers Federation

The Victorian Farmers Federation is Australia's largest state farmer organisation, and the only recognised, consistent voice on issues affecting rural Victoria.

The VFF represents 21,000 farmer members, representing 15,000 farm enterprises. The VFF consists of an elected Board of Directors, a member representative General Council to set policy and eight commodity groups representing dairy, livestock, grains, horticulture, chicken meat, pigs, flowers and egg industries.

The VFF Pig Group Council consists of six members who are elected by the group's membership to direct the commodity group. Although the membership of the Pig Group represents a small percentage of the total VFF membership, it is a positive and proactive political lobby commodity group.

Victorian pig industry

Victoria is the third largest pigmeat producing state in Australia comprising 19 per cent of the total pig farms in Australia. Victoria currently has approximately 430 herds containing over 64,000 sows. Pork production is largely concentrated in the central and northern regions of the state.

The pork industry has undergone profound structural change over the last 20 years, with Australian producers decreasing from 19,279 in 1980 to 2,914 in 2001. However, during the past twenty years, the average herd size has increased six fold from 18.3 to 113.9 and the average slaughter weight has grown by 20kgs to 75.6kgs¹.

The economic value of the Victorian pig industry during 2003 was estimated to be \$573 million with over 7,760 jobs being generated².

Factors affecting local Victorian pig producers

Competition from imports

Increasing competition from imported pork on the local market is severely affecting the profitability of Victorian pig producers. To become more competitive Victorian pig producers need the flexibility to convert their current operation of turning out pigs at a set weight, at a P2 fat score measurement using the matrix system.

To achieve the required P2 score measurement locally pigs are grown out to a liveweight of around 95kg which is a dressed weight of 70-73kg. To be competitive carcass weights must be comparable to imported carcasses of 105 – 115kg dressed weight.

There is also strong influence on the local market price of imported pigmeat from Denmark and Canada. During 2002, 46,000 tonnes³ of mainly Danish middles and Canadian legs were imported into the Australian market. This imported pig meat is brought in fresh but processed locally into manufactured smallgoods products and traditionally sold through the supermarket deli. This represents a loss to Australian pig producers of over \$192m⁴.

Pig meat imports are aimed to peak during the December and the Christmas holiday period where Danish middles are up to 40c/kg lower than local Victorian prices. The end result is that local prices decrease by that amount to remain competitive. There is a strong relationship between cheap imports and the decrease of the local market price. It is estimated that per 70kg locally produced pig, a 10c/kg decrease is approximately a \$28 loss per pig. For 1,000 sows every 10c/kg decrease in price is approximately \$150,000 loss in revenue per year to the pig producer.

¹Source: Australian Pig Industry Handbook – Pig Stats (2002)

²Source: Australian Pork Industry Overview (2003)

³Source: Australian Pig Industry Handbook – Pig Stats (2002)

⁴Source: Australian Pig Industry Handbook – Pig Stats (2002)

Increased carcase weight & measurement scale

One of the principle objectives of Victorian producers to remain competitive within the industry is to increase the weight and quality of their pigs. Carcase weight is one of the key determinants of cost of pork production from the farm to the consumer⁵.

There is only minimal costs involved (feed, shedding, animal health) of growing out pigs beyond the current requirement of dressed weight of 70kg to a dressed weight of 95kg. Approximately, to increase the weight by 10kg production costs will increase by 15c/kg. Overall the cost/kg decreases when pigs are to grown on to a heavier weight.

The current system of carcase measurement is based on the P2 fat depth scale. This form of measurement does not predict the quality of the lean meat and the local pig producers want the measurement based on depth of loin rather than the fat measurement scale. It is understood that the change of carcase measurement is unlikely to increase prices but the increased accuracy of carcase valuation will reward those producers supplying quality pig carcasses.

Promotion

To remain competitive it is essential that the local pig industry has an efficient supply chain network in Victoria. There must be an increase in pork sales within Victoria and across Australia, through promotion of a local, healthy product as compared to imported meat which has the potential for disease risk. This promotion must clearly differentiate between local and imported products and develop consumer awareness that not all smallgoods purchased through the supermarket deli are locally grown. Promotion of pork as a nutritious and healthy source of protein in the consumer's diet is vitally important but generic promotion also encourages imports, as there has been no clear labelling of local product over imported pigmeat.

With the very recent launch in early October of the Australian HomeGrown initiative by the Federal Government and Australian Pork Limited these issues are now being addressed. The \$4m commitment of matching dollar-for-dollar funding by the Federal Government for country of origin labelling assures that consumer awareness will increase for locally grown pork. The adoption of this initiative has been viewed by the VFF Pig Group as a positive step for the future progress of Victoria's pig industry.

Local and export markets

Local market price fluctuates during the year with traditional peak prices received over the Christmas holiday period where consumers are buying fresh pork and processed hams for Christmas celebrations. Prices continue to fall over the following months, and lower prices received during the winter months. Local producers recognise that they need to manage the overall impact of price volatility on the profitability of their business during the year.

The combined buying strength of the two main players in the pig market are Coles and Woolworths, who dictate market price for the local fresh meat market. For local producers this market represents the main source of pig sales. Recently pork prices have recovered due to the increase in the fresh meat price for red meats such as beef and lamb.

A consortium of local producers also sell pigmeat into the export market through Auspork Australia Ltd which was able to increase sales into Singapore during the recent SARS virus outbreak from 10% up to 30%. The Australia pigmeat industry was able to take full advantage of its disease free status and its close proximity to supply this high, pork consuming market.

There is possible future expansion into exports as currently Australians only consume 8kg of pork per person compared with the much higher consumption rate in overseas market such as Asia, USA and Canada. But pricing is competitive on the international market, Australian chilled pork exports at \$15/kg which competes with countries such as Brazil which is selling frozen pork for \$5/kg.

⁵ Source: APL Restructure Plan Strategies and Goals 2004

Feed costs

Feed costs have the most significant impact on overall farm profitability for the local pig producer. Local northern Victorian pig producers have set up a buying group which has great purchasing power from the local feed mill. As this represents approximately 60% of the feed mills production, the group have good negotiating leverage on price and have access to the mills feed nutritionist for formulation of specialised rations.

During normal seasonal periods feed costs account for between 55-60% of overall production costs. This percentage significantly increased during the last drought where feed costs during winter increased to 70% of overall costs which brought the domestic price of wheat to over \$300 per tonne. Additional to this inflated price, the producers had to factor in the extra costs of transportation and processing of the grain.

To remain competitive in domestic and export pigmeat markets, Victorian pig producers need the principal elements surrounding the supply of suitable feed grain analysed. These elements include; inconsistent availability of feed grain, suitable feed grain for maximum pigmeat production and severe feed price fluctuations.

Employment and the local community

The successful operation of a piggery involves the employment of a dedicated team of skilled staff. When the industry feels the affect of a loss in cash flow there is a huge impact, not only on the pig industry, but on the flow-on affects to the local community. Because when income is reduced, producers are forced to drop staff.

An average piggery employs approximately one person per 100 sows. During 2001, in Victoria there were 64,000 sows recorded by pig producers⁶. This equates to approximately 640 people employed on-farm across regional locations within Victoria.

Due to the extensive on-farm infrastructure and business management requirements, pig operations are also high users of support services such as feed milling freight in and out of the piggeries; local tradesmen (electricians, welders) and financial services. Providing extensive direct on-farm and service industry employment opportunities in small regional communities.

Conclusion

This submission has outlined the central issues that affect the future sustainability of the Victorian pigmeat industry.

By addressing the major issues such as competition from imported pigmeat on the local market; the impact of high feed costs; by improving carcass weight and re-evaluating the current measurement scale the Victorian pig industry will be in a position to grow and move forward.

Combined with these issues is the recognition of the importance of local product labelling and effective in-store consumer promotion which gives voice to the Victorian pig producer and identifies that our product is home grown.

Australian Pork recommendations:

To achieve these outcomes the VFF Pig Group support the following recommendations made in the Australian Pork seven point restructure plan (listed below).

1) Increase fresh pork sales (sales & margins).

⁶ Source: Australian Pig Industry Handbook – Pig Stats (2002)

Increasing demand for fresh pork, in both the domestic market and the key export markets of Japan and Singapore, is a key driver to lifting margins and returns across the supply chain in increasing the proportion of production sold into the higher margin sectors.

2) Increase carcass weight (reduce costs through supply chain).

Carcass weight is one of the key determinants of cost of pork production from the farm to the consumer. On farm an extra kilogram of pork produced does not carry any of the fixed costs of the business.

3) Reduce feed costs.

The cost of production, and thus profitability of the industry, is largely determined by feed prices (63% of total costs in 2001/02, 68% in 2002/03) and the efficiency of conversion to pork product.

4) Create new pricing systems – long term contract pricing.

The current method for predicting carcass value (P2 fat depth) no longer predicts lean meat yield with sufficient accuracy to support payment systems, is inherently prone to unacceptable operator error and does not have the confidence of producers. A new measurement and payments system is needed that better reflects one of the two components of true commercial value of carcasses (ie lean meat yield).

5) Animal health - two key principles.

1) Consumers demand reduced use of antibiotics in pork production;

2) Disease is a key cost component in pork production. Disease affects indirect costs such as reduced growth rate loss, feed conversion loss and mortalities. Disease also contributes to year to year variation in profitability.

6) Build consumer loyalty for 100% Australian small goods.

Adoption of the 'Australian HomeGrown' – facilitate consumer loyalty for 100% Australian ham, bacon and smallgoods through the HomeGrown initiative.

7) Trade measures – levelling the playing field.

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 producers ability to recover costs. The Australian pork industry operates in a heavily distorted international market, particularly in respect of the level of EU assistance.