

This is the Northern Co-operative Meat Company Ltd submission to the Productivity Commission Inquiry into the Australian Pig Meat Industry. In this submission we wish to address the following matters:-

- Imports are damaging the industry and as such appropriate trade measures should be implemented to benefit the Australian pig industry;
 - Grounds exist for a Productivity Commission investigation into safeguards; and
 - APL's draft Industry Restructure Plan is designed to achieve global competitiveness of the whole of the supply chain and the short and long term assistance required by the industry to achieve this.
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- **The Northern Co-operative Meat Company Ltd Company Background**

The Co-operative operates a dedicated export beef processing facility, one of the largest wet blue leather tanneries in the southern hemisphere and dedicated export pig processing & boning facilities. The beef processing facility (Est 239) and wet blue tannery are located on the edge of the township of Casino. The pig processing & boning facility (Est 7170) is located 45 kilometres from Casino at Booyong.

The Co-operative's Pig Processing operation is operated under the business name of "Cassino RSM Processing" - (Est 7170) and is the Co-operative's export pork boning/fabrication facility, the boning facility is a sophisticated custom fabrication operation which is highly adaptable to different customer specification requirements. The facility is able to produce a diversity of products from a variety of carcase weights. Products are processed according to international and domestic industry specifications, but special fabrication requirements can be provided at the customer's request.

The boning facility has complied with stringent quality control guidelines to gain accreditation as an approved processor for;

- Japan
- Korea
- New Zealand
- Singapore, and,
- Other Asian markets.

The facility has in place accredited **Meat Safety Quality Assurance (MSQA)** and **Hazard Analysis Critical Control Point (HACCP)** quality systems and is **AUS-Meat** accredited.

This submission focuses on the pig meat processing components of the company

- **Extent of Business Activity**

The Northern Co-operative Meat Company Ltd is a 100% Australian owned company with over 1700 producer and operator members. It is led by a Board of Directors who are elected on a rotational basis by the members. As a major employer in the area (at its main site in Casino, it employs over 800 people), the Co-operative is very conscious of its responsibility and commitment to local communities.

- **Market Focus**

The Casino RSM Processing plant is a service works for Slaughter & Boning and therefore should be a good barometer for the Australian pigmeat industry, as other market factors are minimized.

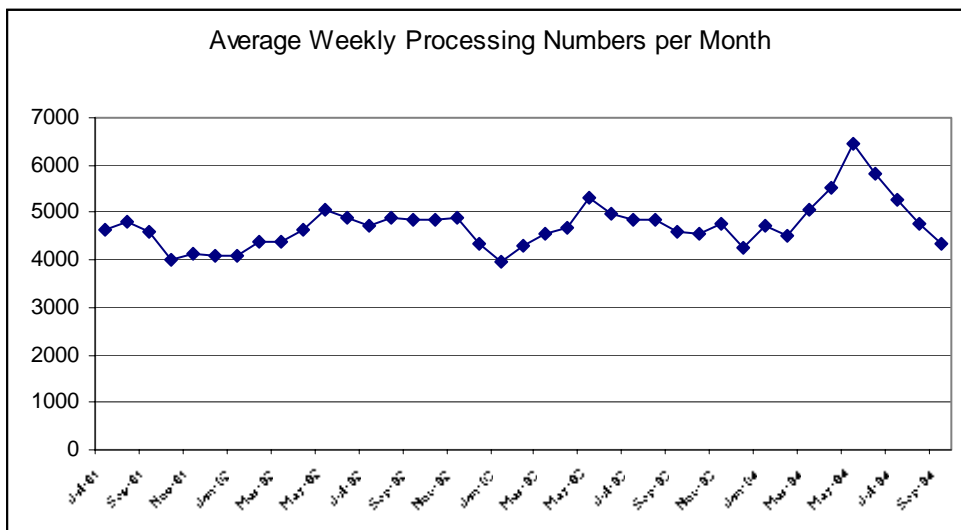
- **Impact of Imports on the Australian Pig Meat Industry and Specifically on Our Business**

Northern Cooperative Meat Company has been in operation since 1933 and since that time we have continuously processed pigs. In the last

decade our confidence in the pigmeat sector was such that we invested in new slaughter and boning room facilities and used every device available to us to improve our competitive position.

The trading position over the last three years shows the significant hardship being encountered by our Co-operative. Every Board meeting this year has devoted time specifically to whether or not the boning room operations should continue. Despite several initiatives our pig processing operations have been running at an overall loss during the last six months.

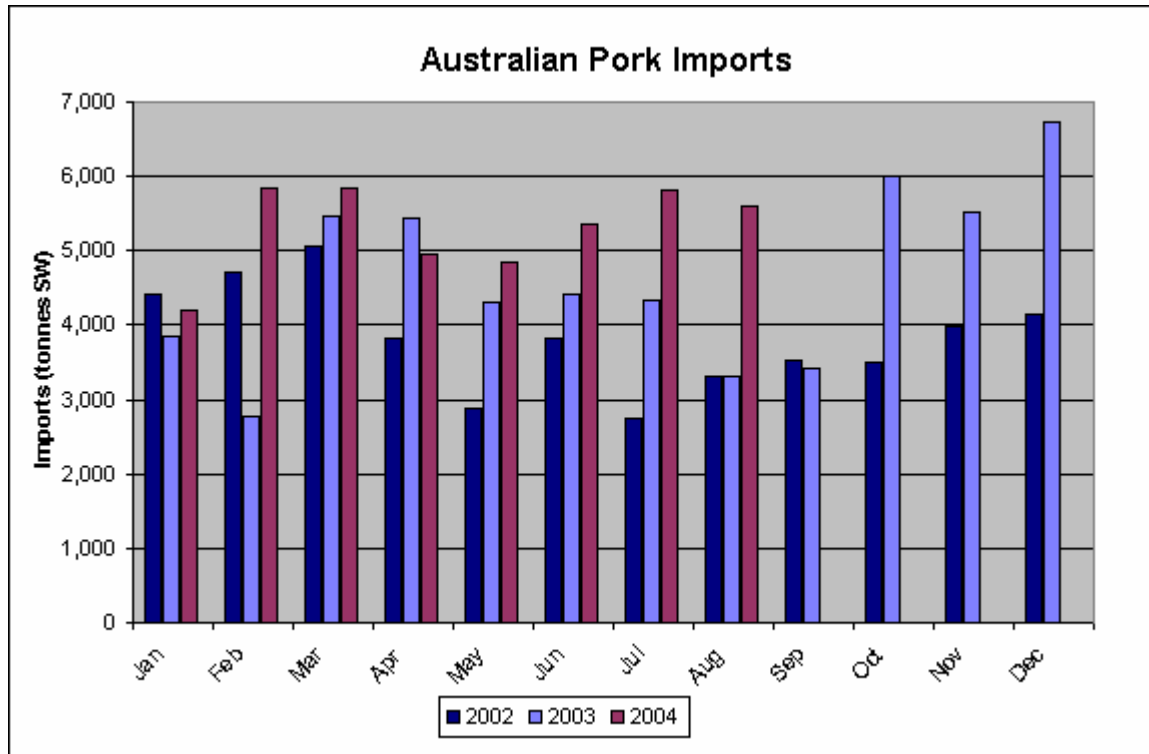
The following graph shows our processing volumes from July 2001 to September 2004. The graph clearly shows a decline in processing numbers from May 2004 to present.



The following Australian Pork Limited chart and analysis of recent pork imports shows the underlying impact of pork imports on our declining weekly throughputs

Australian pork imports in the past 12 months have lifted to 30.8 percent above previous year volumes despite lifting global prices. While past seasonal trends indicate that mid year import volumes tend to be lower to coincide with higher world prices during the northern hemisphere summer, this has not been the case in 2004. Instead, processor apprehension over rising domestic prices has induced additional purchases of imported pork,

seeing many processors already reaching an advanced stage in their Christmas buying programs. The per kilo value of pork imports during August was 15.9 percent above August 2003 levels, due largely to the increased proportion of higher priced Danish middles.



North American pork prices continue to be fuelled by record demand combined with a shortage of inventory in that region. This has lifted pig prices in Canada to over 40c/kg above the five-year average, also reflected in the rising per kilo price of Canadian pork imports into Australia. The value of the AUD has fallen by 9.7 percent since its peak in February placing further upward pressure on import prices. However, this is yet to be reflected on the domestic wholesale boneless leg price, which remains almost 11 percent below the August 2003 average.

Confidential information removed

- Australian meat industry already works on small profit margins. Increased imports at lower prices will impact on these margins even more and in some cases businesses will be forced to close.
- **Options to Improve Global Competitiveness of the Australian Pig Meat Industry and Our Business**
- We have undertaken significant capital expenditure over the past at Booyong to enhance our business for the benefit of its cooperative producer members and in turn the Australian pig industry. However the increasing volumes of cheap imported product has put under threat the ongoing operation of our pig meat processing facilities

We believe that the importation of subsidised pork from Denmark and Canada is effectively causing the demise of the pig meat processing sector in Australia. We accept that it has been the Australian Government's policy to allow pig meat imports into Australia but the sheer volume of imports and the price differential between Australian and imported product is now having severe deleterious impacts on the future of the industry here. If producers were able to respond to normal supply

demand price signals they would increase production to satisfy that demand on the domestic market. However imported pigmeat is being landed in Australia below the Australian cost of production hence the non responsiveness of the production sector.

As we have proved since 1933 we have had a competitive business but we can not compete on an uneven playing field especially following the impacts of the 2002/03 drought. To compensate for the grain, freight and fuel subsidies received from our overseas competitors, there should be either a quota on imported product or other form of equalisation for the Australian Industry. Some system of price equalisation whereby imported product is levied to achieve price equalisation with best in class Australian product is required. The funds achieved by such a levy could be channelled to pigmeat industry development and export market activities much like the US beef checkoff system where imports to the US attract a levy to be used to support the domestic industry.

- **Other Issues Relevant to The Sustained Profitability of Our Business**
- Frozen imports into Singapore are having a significant effect on the Australian carcass trade into that country
- Other countries gaining subsidies for exports but subsidies are not part of Australia's policy, which gives those countries competitive advantage over pork produced in our own country.
- Reduction in the number of producers and resultant lower pig production numbers (sow numbers have decreased)
- High grain prices in Australia, both from the effect of the continuing drought and the lack of Government assistance which our overseas competitors receive
- Freight costs are higher in Australia due to the distances required to be covered for moving livestock, stock feed, to and from abattoir facilities etc.
- Impost of Government charges ie. AQIS and Levies, where these costs are covered as Community Health Obligations by our overseas competitors

- Impact that the Import Risk Analysis will have on the Australian pig industry.
- Relatively high Australian production costs preclude us exporting to some countries.

WE REQUEST THE OPPORTUNITY TO APPEAR AT PUBLIC HEARINGS OF THE INQUIRY TO TALK TO OUR SUBMISSION.

WE ALSO EXTEND AN INVITATION TO THE COMMISSION TO VISIT OUR ESTABLISHMENT TO DISCUSS OUR SUBMISSION.