

South Australian Farmers' Federation

Submission to Australian Pig Meat Industry Inquiry

September 2004



**SOUTH AUSTRALIAN
FARMERS FEDERATION**

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Introduction

This submission has been written by the South Australian Farmers Federation as the peak body representing South Australian Pigmeat Producers.

The South Australia's pork industry recently examined itself and has developed a strategic plan which outlines where the industry needs to be by 2010. This strategic plan presents a very positive outlook which has been adopted as a common vision of what the State's industry is capable of achieving in the future.

Industry and Government have worked together to identify strategies where collaboration – rather than competition – can assist the SA Pork Industry, with whole-of-government support, to achieve its goal of becoming the most competitive pork production and processing region in Australia.

It is planned that state production will increase by 50% in volume to fully utilise current processing plant capacity, with product targeted at higher value markets.

Structure and regional distribution of the industry

The South Australian Pig Meat industry has a wholesale value \$205 million and a farm-gate value of \$116 million. Currently the state has 53,800 sows in production producing 18,000 market pigs per week.

According to ABS statistics South Australia comprises of 507 herds with the main regions located in the Murraylands (35%), Barossa (25%), Mid North and Northern Areas (15%) and the South East (9%).

The SA Pig Meat industry has two new export-accredited processing plants at Murray Bridge and Port Wakefield and both plants have significant scope to increase export and domestic processing capacity. The Port Wakefield plant is strategically located close to the new Adelaide – Darwin railway line.

Access to feed grain in the main production regions is dependable and South Australia has a suitable climate and geography for pig production. The industry has developed software that can analyse the whole state's resource suitability for pork production and this combined with affordable land prices is expected to attract investment into the SA industry.

Regional Development Boards and Local Governments in the Mid North and Murraylands regions have already been actively seeking to smooth the way for prospective pork production facility developers by simplifying planning approval.

South Australia has achieved significant efficiency improvements with the rapid adoption of the batch-production system of pig management. Contract production is also on the increase assisting easier entry into the industry and improved production.

Whilst the industry has some strengths and advantages it has undergone significant rationalisation. Ever reducing margins and the expansion of urban Adelaide into the hills region has forced the pork industry to set up larger farms in more regional areas of the state. As with the national industry producer numbers have significantly reduced and farm and herd sizes have steadily increased to achieve scale of economies.

The emergence of Big River Pork in December 2001 has increased the processing capacity of the state. Previously the South Australian Industry was at capacity killing rates and now has the potential to increase production by 50%.

One factor which has the potential to significantly impede the operation of the pig meat industry is the current development of the new National Welfare Code of Practice for Piggeries. If this code calls for significant changes to current practices or infrastructure within the industry it will result in substantial costs to the industry.

This has been evident in the Egg Industry where changes to the Animal Welfare code resulted in the requirement for producers to increase the sizes of layer cages. The Egg Industry in South Australia does not have the capital or cash reserves to pay for the required changes and many farmers may be forced to exit the industry. These farmers will lose their investment capital as they will not be able to sell their businesses as a running concern. Like the Egg industry many Pork Producers would not have the reserves to undertake changes to their infrastructure.

The SA Pig Meat Industry has also developed Guidelines for the Establishment of Intensive Piggeries in SA. These guidelines have been successfully in use in South Australia for several years and were developed by industry in consultation with state and local government. This document is a significant contributing factor to increased investment and development that has occurred in the SA Pork Industry compared to the rest of Australia.

Recently the National Environmental Guidelines for Piggeries were released by APL and the Federal Government. These guidelines have been developed in consultation with all state industries and Governments but it is not certain if they are entirely suitable for the South Australian Pig Meat Industry. South Australia is currently reluctant to adopt the national guidelines as it may make it more difficult for the industry to undertake expansion identified as necessary in the strategic plan.

Trends and factors influencing demand and supply

Consumption

Australian per capita consumption of pig meat is rising and is the fastest growing fresh meat of choice in Australian homes. Sales in the March 2004 rose by 22pc on previous March quarter levels. Consumer data shows a change in Australian eating culture. Pork is being increasingly seen as a legitimate alternative for consumers as a meat of choice.

There is rising consumer demand for proof of integrity of safe and clean food production systems with high environmental and welfare standards which is driving demand in both the domestic and export markets and this combined by consumer eating preferences being driven by convenience, health benefit, taste and “experience” and less driven by price is holding the industry in good stead for the future.

Although consumption data is positive it should be noted that pork is commonly the cheapest meat available on the supermarket self and with increased input costs for producers, increased demand does not directly equate to increased margins at the farm gate.

Production

The SA Pork Industry has been suffering a continual reduction in farm gate prices. This reduction is forcing farm enterprises to consolidate, creating more medium to large-scale farms in our state.

Legislation and regulations regarding water use, animal welfare and environmental management have been placing increased pressure on production techniques and are adding to the need for the development of more modern farms.

The demand for feed grain due to the Australian drought and a rising influence of world markets has seen greater volatility of feed costs and has severely affected the margins pork producers have been able to create.

During the drought SA producers were severely disadvantaged by drought relief payments for producers to purchase feed. While eastern state producers had subsidies to pay for the inflated price of feed SA producers had no assistance for feed purchase. It could also be argued that the subsidies to purchase feed drove the price up in the first place.

In all food production systems world markets are demanding stricter food safety and traceability procedures. This is evident in all meat industries and is predominantly driven by consumers requiring safer, cleaner food but is also a defence mechanism by countries not willing to import disease from other countries.

Imports

The Australian Pork Industry is continually competing with imports from European and North American countries with high levels of artificial market support. This coupled with a recent decision by Biosecurity Australia to increase the number of countries able to import to Australia has put significant downward pressure on the price of pigmeat.

For years prices have traditionally increased leading up to Christmas however this phenomenon no longer applies now that imports are more readily available. It would seem that the threat of imports is all that is required to keep domestic prices down. Other factors influencing Australia's domestic price include the ongoing world trade liberalisation and currency movements.

Exports

Australian exports of pig meat have been undergoing a growth period which can be attributed to an increased demand for meat products in Asia. It has been well documented that this demand has been underpinned by the growth in middleclass Asia. This demand has brought with it requirements for proof of integrity of safe and clean food production systems with high environmental and welfare standards.

Other factors aiding the rise in export demand are animal health concerns in Malaysia and Europe. Australia has a good disease status and can import to most markets in the world. We are also a cost competitive supplier and have created marketing alliances (horizontal and vertical) that have enabled greater and more reliable supply shipments.

Given the recent success of Australian pigmeat exports further export growth is predicted however this growth may be tempered by bilateral alliances and regional trading blocs limiting export market access and increasing import competition.

Impact and effectiveness of government and industry programs

The recent release of the South Australian Pork Industry's Strategic Plan for 2010 was jointly developed by industry and Government and has been a successful step towards the SA industry being successful in the future.

While industry fully supports the plan and is committed to reaching its outcomes there is much work to be done to drive the industry to its 2010 goals. A strategic plan is only a piece of paper until industry and government invest time and resources into implementing it. Extension officers with PIRSA are beginning to undertake strategies within the plan and industry has committed its own funds but more resources could be used to further implement the plan.

FarmBis funding has been successfully accessed by the pork producers in the past but changes to the guidelines of the scheme have seen it increasingly less accessible for the industry. FarmBis grants target training related to improving business management skills however the pork industry has identified there is a lack of skilled labour and that it requires more training at the production level.

To meet this training gap PIRSA Rural Solutions have been lecturing for TAFE in Certificate II & III in Pig Production both with small grower groups and corporate piggeries. This training was funded using a one year grant provided by Food SA and encouraged the uptake of the industry supported TAFE training program and helped it get up and running effectively.

While the PIRSA staff did a fantastic job in facilitating the resurrection of the TAFE training the funding was for one year only and is no longer available. PIRSA policy states that the department will not fund the cost of their staff to lecture (full cost recovery), and the cost of the TAFE course will be substantially increased as a result.

Previous funds acquired following the last productivity inquiry into the pigmeat industry were used to help the Auspork Group float the concept of Big River Pork in 1997 and within 4 years the consortium designed, developed and implemented a state of the art processing facility that manages pork production from the farm to retail ready product. The plant began operation December 2001.

The South Australian Pork Industry has an industry levy collected under the South Australian Primary Industries Funding Act. The levy is administered by the Pig Industry Advisory Group and is utilised to fund applications for industry development as well as disease compensation and management.

The industry fund was instrumental in the development of the SA Artificial Breeding Centre (SABOR). SABOR is located in the Clare Valley, and was established in 1986 to identify superior breeding stock for the Australian Pig Industry. Since then it has been developed into a world class facility for the collection, processing and marketing of fresh boar semen throughout Australia and overseas. SABOR is now a self reliant company which now returns a profit to the industry fund.

The industry fund also provides funding for extension programs undertaken for the industry which include the transfer of technology to the industry, pig industry newsletters, industry training and contributions to policy development.

Profitability

The Australian Pig Industry handbook provides a summary of the profitability of the industry for 2002-2003. The industry on average has not been profitable with producers loosing \$0.06 per kg Live Weight in this period.

The major factor influencing this performance is high feed costs. The Australian drought has dramatically reduced the amount of feed available increasing demand and therefore the price.

The cost of feed in this period was approximately 67% of the total cost of production but feed costs have always dominated the profitability of the pigmeat industry. Due to the increased pressure on margins as a result of the increased feed costs most SA producers have stopped all spending on repairing and replacing plant and equipment.

This is a significant fact because if feed prices reduce and prices strengthen the SA industry will not immediately recover from negative profitability. The industry will require a significant amount of any future profitability reinvested as repaired or replaced plant and equipment.

The above mentioned National "Animal Welfare" and "Environmental" guidelines are two regulatory impediments to the industry which could inhibit producers from implementing productivity-enhancing changes on their properties. Both have the potential to limit producers and processors from expanding their operations to achieve scale of economies.

The new 'Animal Welfare' may also limit the ability for Australian producers to be profitable compared to other countries have lesser welfare codes. For example if a property currently utilising stalls of 2m by .6m per sow was required go to a 3m2 stall costs would blow out immediately. A change of this nature would dramatically reduce the number of sows in existing shedding creating a requirement for producers to build more sheds or expand existing shedding to create scale of economies. The need for more or larger sheds would also result in increased maintenance and input cost per sow.

Competitiveness

The trade impact of quarantine changes in the mid 90's has led to fundamental changes in the domestic market. As quarantine policy moved from 'no risk' to 'managed risk' in line with Australia's international obligations, pork imports surged causing serious injury to the industry.

In a report commissioned by the Commonwealth Government in 2001, "The Charter of Strategic Imperative for the Australian Pork Industry," it is acknowledged that the industry's key competitive advantages are its comparative freedom from diseases, proximity to Asia and capability to export fresh chilled pork to these Asian markets. The ability to feed non-genetically modified grain to pigs is part of maintaining this competitive advantage.

However, it is Australia's key competitive advantage, its unique and unparalleled quarantine and health status that underpin the future of the industry. Australia's quarantine, in combination with its preparedness and level of integrity with animal disease surveillance programs, facilitates industry investment and growth. The Australian pork industry is in the enviable position of having a national pig herd with a 'world's best' health status, which underpins pork exports and is vital to the competitiveness and growth of the industry.

In a recent Import Risk Assessment undertaken by Biosecurity Australia it was recommended that the import of pig meat be permitted by increased number of countries. The report recommended changes to the allowable conditions of the health status of the exporting countries or zones by review the risk management measures. Such measures included country or zone freedom, testing of the carcass, cooking, freezing, curing, canning and removal of certain tissues or parts of the carcass (removal of the head and neck, major peripheral lymph nodes, deboning).

Australia's competitive advantage has been undermined by this recommendation and it is widely believed within the industry that our strategic competitive advantage as a clean green, disease free producer of pigmeat will not be maintained.

So how does pork compete with other sources of protein? Globally pork is the most widely consumed form of animal protein at around 40 per cent of world meat consumption. It is without doubt the world's most popular meat – followed by poultry, then beef and veal and then mutton and lamb.

Although prices have risen considerably in the domestic market in the last two years, overall consumption compared to other meat competition has remained relatively static. The trend in the consumption of beef and lamb has continued to decline, while poultry has made the fastest gains in its share of Australian stomachs in recent years.

This static demand for pork reflects the relative size and maturity of the domestic market. Nevertheless there has been a fundamental change in the demand for pork based products reflecting increased consumption of fresh pork, processed bacon products in fast food and a decline in bacon consumption in the home. Demand for ham from supermarkets and butchers has fallen whilst use in convenience foods is static.

Largely it is considered that Australia's industry is not on a level playing field with competing nations. The main competitors in the global pork market are the U.S., Canada, the European Union (EU), and Brazil. In general, they account for over 75 percent of world trade in pork.

These major exporters are subsidised and can produce a product and place it in Australia at a cheaper cost than it can be produced on our shores. Even the threat of such large quantities of cheap product flooding Australia's market has a downward effect on price.

As an example in September 1989 the Australian Government announced an in-principle decision to lift the existing ban on importation of unprocessed pigmeat, specifically for Canadian product. The decision was confirmed in July 1990, the formal protocols were signed soon after and imports from Canada began arriving in August 1990.

In the first year, import levels were generally minor. However from July 1991 there was a sustained increase in volumes, so that the total for 1991/92 was over 4000 tonnes compared with about 1000 tonnes for the preceding year (APC 1998a). This increase in imports coincided with a dramatic fall in farm prices for pigs in early 1992.

Measures to enhance competitiveness

As previously mentioned the SA Pork Industry has developed a 10 year strategic plan for our state. As part of this plan the industry vision is to achieve:

- **Production and processing will become more integrated** in order to better manage production throughput and carcass profitability and to service more diverse domestic and export markets.
- **Market access and product profitability will improve**, both domestically and internationally, as new partners, alliances and appropriate investors establish in SA.
- **Production expansion will occur** through large producers or with smaller producers in alliances. Many small producers (less than 200 sows) will move from full birth-to-market production systems to specialist production under contract, such as grow-out sites. This expansion will primarily occur within 100km of the processing facilities at Murray Bridge and Port Wakefield, and in specialised regions that are zoned for intensive production.
- **Skill levels and family-farm quality of life will improve**, as production sites become more specialised.
- **All SA production will be processed within the state.**

To achieve this vision the industry will require \$90 million of capital investment in sow space, 2,400 tonnes/week of additional feed, which will require a new dedicated feed mill or significant expansion of existing facilities, investment in utility infrastructure including transmission of 750 mega litres of additional water and improved systems of by-product utilisation, such as composting.

Strategies have been put in place to achieve these requirements and it has been identified which strategies require government to play a role. Attached is the strategic plan which clearly outlines the strategies and the role required by government.

Summary

The South Australian Pigmear Industry is positioned to achieve its goal of increasing state production by 50% in volume to fully utilise current processing plant capacity, with product targeted at higher value markets.

To achieve this the state has identified it will need to increase processed food manufacturing in SA, increase the proportion of boned product, construct a central packaging plant, utilise untapped productive capacity in existing large scale farms, create better intelligence flow between producers and processors to improve carcass utilisation, have industry uptake APIQ accreditation, improve water efficiency, streamline planning approvals for development of the industry and meet public perceptions of adequate welfare and environmental standards.

While our industry has the plan, the industry is still limited by several factors including:

- Industry undergoing significant rationalisation;
- Development of the new National Welfare Code of Practice for Piggeries;
- Development of the National Environmental Guidelines for Piggeries;
- Continual reduction in farm gate prices forcing farm enterprises to consolidate;
- Continually competition from European and North American countries with high levels of artificial market support.
- Ongoing world trade liberalisation and currency movements;
- Further export growth tempered by bilateral alliances and regional trading blocs limiting export market access;
- Minimal government funds available for industry extension programs such as implementing the industry strategic plan and undertaking required industry training;
- Drought causing increased pressure on margins resulting in SA producers stopping all spending on repairing and replacing plant and equipment or uptake new technology;
- Increased risk of importing diseases following recent Import Risk Assessment undertaken by Biosecurity Australia; and
- Overall consumption of pork remaining static compared to other protein sources despite price for pork being the lowest.