

West Australian Pork Producers' Association
Supplementary Submission to
Productivity Commission Inquiry
into the
Australian Pigmeat Industry



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1. DRY SOW STALLS (DSS)/ANIMAL WELFARE

WAPPA's 15/10/04 submission to Productivity Commission recommended:

- **that the impact on the cost of production of any proposed changes to the current regulations on dry sow stalls should be examined and reported on as part of this inquiry.**

Australian Pork Ltd (APL), the industry's national governing body, believes the use of DSS is consistent with sow welfare and any changes to the Code in this area must be **supported by sound science and be practical and affordable for producers to implement.** With continued support from state farming organizations, APL has extensively consulted producers, delegates, the wider industry and key stakeholders in the past 10 months. This has included regional producer meetings in each state, APL delegate surveys and a producer survey on a number of welfare issues. A delegate's vote on DSS alternatives was held in June 2004. APL has also undertaken financial modelling and analysis of the impact on producers of different housing scenarios. From that consultation process, APL developed a policy position on DSS:

That dry sow stalls should be permitted to be used for up to 10 weeks of any one gestation period, after sufficient lead time, as well as for occasional housing of individual animals for animal health reasons and/or restorative feeding, or for confining animals at feeding time.

Long lead times for adjustment are a priority for industry. Indications at this stage, based upon financial analysis, suggest a lead time of at least 14 years.

This policy has been determined after extensive review of factors such as the economic implications to an industry still recovering from a period of high feed prices and low returns, the welfare and management implications to the embryo and newly weaned sow and the fact that group housing is at an early stage of research and implementation. Hastening adoption of group sow housing systems by using legislation, without due consideration to sow welfare, may be counter productive and detrimental to the industry. **It is important everyone understands that housing sows in groups does not address, by association, the welfare requirements of the animals. There are still significant deficiencies with this system, which require further research (being undertaken by APL to ensure the welfare of the animal is not compromised).**

As the Commission would be aware, the Model Code of Practice for the Welfare of Pigs (the Code) is currently being reviewed by the Australian Government. The Primary Industry Ministerial Council, through its Animal Health Committee, established a writing group to draft the revised Code. It is the responsibility of the Primary Industry Ministerial Council (not APL) to make the final decision on recommendations to the Australian and State Governments on the welfare standards and code of practice for pigs in Australia.

This issue has been vigorously and thoroughly debated within WAPPA, with the Executive supporting APL's argument that any proposed changes made by public policy to animal welfare standards, based on opinion and perception rather than science and which are clearly not financially sustainable nor recoverable from the market, must be borne by governments.

2. EXPORTS & IMPORTS

It is noted in the Draft Report that in the past six years, Australia has become increasingly integrated into world pigmeat markets. Pigmeat imports increased from \$40 million to \$219 million, while exports increased from \$56 million to \$195 million.

WAPPA accepts that in the long term, the competitiveness of pigmeat businesses will be driven by sustainable international cost advantages and/or product differentiation. However, WAPPA has difficulty understanding how this can be achieved when our international competitors, particularly Denmark, receive substantial subsidies.

To quote from the Draft Report page 50 Box 3.5 Government Assistance and Danish Export Prices for Pigmeat:

The OECD (2004) estimated the total value of EU support to the EU pigmeat producers in 2003 was about A \$0.41per kilogram. (Source: OECD; Danske Slagterier 2004).

This is supported by Professor Claire Nixon on pages 183/184 where she states:

“The level of support can also be expressed on a product weight basis. The OECD estimated that producers in 2001 in Australia, Canada and the United States received less \$US 0.7 per kilogram, while producers in the European Union received \$US 0.29 per kilogram.”

WAPPA accepts and understands that exchange rates play a part in the competitiveness of Australian pigmeat on the export market and vice-versa for imported product.

We also refer the Commission to APL's second submission, pages 127-138 Appendix G: Subsidization and Market Distortions in Key Competitor Markets:

With the level support our major competitors receive, WAPPA wants to be informed of what actions the Commission believes are required by the industry to make itself internationally competitive and, more particularly, the role government should play in the industry achieving this goal.

3. ANIMAL HEALTH/ANTIBIOTICS

The final comments on antibiotics in WAPPA's submission to the inquiry were:

Production costs will rise unless cost-competitive alternatives to antibiotics can be found and this should be a priority for research and development. Any such research needs to account for the impact of different production systems, many of which are unique to Australia and the interaction between factors such as length of lactation and composition of creep and weaner feeds.

Strategies that will help reduce costs are:

- Destocking and restocking program
- Maintaining a disease eradication program
- Auditing current herd biosecurity practices
- Increasing farm biosecurity
- Tracing the movement of livestock

These strategies are all outlined in APL's Draft Industry Restructure Plan, Commission submissions and APIQ program.

Producer research in WA reveals the cost of antibiotics is herd specific and could vary between \$1 and \$7, or even higher, per pig produced pending the health status of the herd. This impacts on the cost of production by 0.7% to 3.5%. Reducing herd health compliance costs is a key and critical strategy.

APL Evidence

Evidence provided to WAPPA by APL advises that the procedures currently used by Australian Pesticides and Veterinary Medicines Authority (APVMA) result in long, unnecessary delays in having new and more effective antibiotics approved. This, along with the delay in getting new vaccines to the market, is hindering the progress producers are trying to achieve in improving animal health and therefore improving the cost of production and the efficiency of the industry.

Recommendation

WAPPA recommends the process for the registration of imported vaccines be treated as a priority by the APVMA, thus enhancing the opportunity for the industry to investigate alternative animal health strategies to improve efficiency and reduce cost of production.

4. PRODUCTION COSTS/FEED GRAIN

It has been well documented that the major cost of production is feed grain which, on average, accounts for 60% of the total cost of the market product. Based on WAPPA's submission, the average cost of production for a sow producing 20 pigs per year for 2002/03 was \$2.46 per kilogram and for 2003/04 was \$2.25/kg, with no change being made for other inputs and no allowance for the return on capital.

WAPPA commented that some producers, especially those operating mixed farming operations, did not always clearly understand their cost of production, because they didn't separate out the costs for the various enterprises.

Individual farmer research within WAPPA reveals that these mixed farming operations are key members of their local rural communities. Without their individual enterprise and diversification they would no longer be farming. They accept the fluctuating fortunes of international markets and exchange rates and 'get on with job' of improving their farming operations for the benefit their families and their community. *It is the enterprise of these farmers that must be respected and supported by Government policy to ensure pig farming remains an integral part of the rural landscape.*

WAPPA respects and acknowledges the Commission's Draft Finding 5.3 that single-desk marketing arrangements over domestic and export sales of Australian grain have the potential to raise domestic prices for grain, particularly during drought, reducing the competitiveness of all domestic grain-using industries, including the pigmeat industry.

Plus (Draft Finding) 6.2:

Given the potential impacts of single-desk grain export arrangements on domestic grain-using industries, the Australian and relevant State governments should regularly review such arrangements to ensure their benefits outweigh the costs.

Lower feed grain prices have played a part in stabilizing the pork industry in recent months, however there is still not the margins or the outlook to give the industry the sufficient confidence to expand.

WAPPA strongly supports the Australian pork industry's policy requirement that access to feed grain be no more than world parity price at all times.

This is evidenced by the following documentation:

WJ Yates and R Coombs "Review Options to Reduce Feedstuff Supply Variability in Australia"

We refer the Commission to the following extract from Volume 2 Pages 97/98.

1.4. Feed Grains and the Single Desk: A Fair Return – APL's Feed grain Policy Position

The Australian pork industry's policy position is that it requires access to feed grain at no more than world parity price at all times.

The Australian Government grants a monopoly license on wheat exports to a private company, Australian Wheat Board International (AWBI) and this monopoly stifles price competition on the domestic market. This government intervention in the market place discriminates between businesses competing for a common input i.e. grain.

The Australian pork industry is forced to bear the cost of the Government's wheat marketing arrangements without any provision for the impact on its own competitiveness in domestic and international markets. It is critical that the Government address this major public policy failing to secure the prosperity and jobs of people in rural and regional Australia, particularly in the intensive livestock industries.

The issue for the pork industry is not that the single desk is retained or abandoned, but that the Australian Government address the impact on domestic grain users of any price premium through regulations that they have sanctioned.

Pork producers need supply systems in place that will deliver the inputs they need at competitive world prices and give a fair return to grain farmers.

ACTION REQUIRED

- **A guarantee from the Australian Government that grain sold to Australian pig farmers is sold at no more than the price it leaves the port to be exported.**
- **A wide ranging review of the Wheat Export Authority, which examines and recommends measures to address the effects on domestic users of regulations restricting grain imports of wheat and other feed grains.**
- **An early review of the single desk legislation i.e. no later than June 2005.**

BACKGROUND

With more than 80 per cent of Australian wheat produced destined for export, the AWB has the ability to dominate all aspects of grain traded in domestic and export markets. AWBI is a separate wholly owned subsidiary of AWB and is responsible for the operation of the national pool on behalf of growers who deliver to it through the single desk. The single desk was established under the Australian Government's Wheat Marketing Act 1999 in which AWBI was appointed as the sole marketer of Australian export bulk wheat. As such, AWBI can acquire most of the grain available. When one company holds most of the grain, they are in a monopoly position to charge what they like – particularly when supply is short and quarantine restrictions make grain imports costly. There may be many domestic buyers, but they are all effectively forced to trade at the price set by the AWB. The export monopoly kills price competition on the domestic market and the effect is most pronounced in times of shortage.

During the recent drought, pig farmers' feed costs increased 50-70 per cent, pushing many of them out of business. Market analysts ProFarmer (10/41) reported that domestic prices for wheat in October 2002 exceeded export parities by up to \$40 tonne.

Grain represents more than 60% of the cost of pork production. Therefore, any premium due to the single desk, no matter how slight, reduces the competitiveness of the Australian pork industry. Following government decisions to change quarantine rules to allow pork imports, Australian pig farmers are forced to compete in a global market. The Australian pork industry must compete inequitably against overseas pork suppliers, both on export and domestic markets, which have year-round access to international feed grain prices and subsidies.

Further distortions to the domestic feed grain market will result from the government's recent subsidy package for wheat-based ethanol production and will come at the expense of existing livestock feeding industries. This package provides ethanol producers with an indirect subsidy on grain of approximately \$152 per tonne (Macarthur Agribusiness 2003). This will artificially drive up the price of grain, placing increasing pressure on the feed grain market.

As a major customer of the grains industry, the pig industry plays an important role in the future of grain farmers. Total feed grain usage by the intensive industries has grown by almost 100 per cent since 1992/93 to 10.92 million tonnes in 2001/02. The pig industry's grain usage has increased 35 per cent, from 1.57 million tonnes to 2.13 million tonnes in the same period. ABARE's Feed Grains Projections (July 2003) reported that demand for feed grains is expected to rise significantly in the next five years. With the total feed grain supply set to increase only slightly, this strengthening of demand could result in regional shortages forcing extra costs on producers. Further, there are strong prospects for pork industry growth to supply domestic and export markets.

The pork industry, with a national farm-gate value of more than \$1 billion, generates substantial income and employment in rural and regional Australia. The Australian pork supply chain is valued at \$2.6 billion and employs more than 33,000 people, while pork exports are currently valued at \$270 million. The distortions in the feed grain market will reduce the industry's capacity to expand exports and its ability to attract investment to build the critical mass.

The issue of competitive access to domestic feed grains will be crucially important in influencing the growth prospects of the industry in the next decade. The wheat export monopoly is a major public policy failing which is costing the future growth of grain value adding industries and the prosperity of the rural communities that depend on them to generate jobs and income.

We also refer the Commission to the following extract from the Pastoralists & Graziers Association of WA (PGA) submission to Productivity Commission on National Competition Policy, June 2004

2. COMMONWEALTH GRAIN MARKETING ARRANGEMENTS

2.1 Background

The *Wheat Marketing Act 1989* prohibits the export of wheat by anyone other than the AWB Ltd without the AWB's consent. Up until 1999 the Act guaranteed the board's borrowings and provided for the accumulation of the Wheat Industry Fund to eventually replace the statutory guarantee. Other amendments to this act followed in 1997 and 1998 which included corporatisation of the AWB Ltd. and the establishment of the Wheat Export Authority (WEA).

2.2 2000 NCP Review of the Wheat Marketing Act 1989

In 2000 the Minister for Agriculture announced a National Competition Review into the Wheat Marketing Act 1989. The review was conducted by a three person panel as part of the NCP review process. The review was to determine whether the single desk arrangements for wheat provide an overall net benefit for Australia, including to rural and regional communities. The Committee also looked at related issues such as wheat quality and supply. In conducting the review, the Committee also took into account the Government's policies on economic and regional development, including employment and investment growth.

The 2000 Review was a comprehensive process which took almost 12 months and the Committee's final recommendations were based on over 3,300 written submissions, expert reports, 150 private consultations with key stakeholders domestically and overseas and 20 public meetings held throughout Australia. It was the first thorough, independent, and objective review of the Wheat Marketing Act conducted in 60 years of statutory marketing.

2.3 Public Benefit Test

Under the guiding principle set out in the Government's Competition Policy Agreements, legislation should not restrict competition unless it can be demonstrated that the benefits of the restriction to the community as a whole outweigh the costs. The immediate past president of the National Competition Council, Wendy Craik said "*A public interest test in NCP allows restrictions in legislation to be retained where they are in the public interest...The case needs to be made robustly, but the provision is there.*"

The 2000 Review Committee sought tangible evidence on the magnitudes of such benefits, costs and overall effects. The 2000 Review concluded that: *Based on the assessments examined by, and undertaken for, the Committee in its consideration of the 'public benefit' test, the Committee concludes it has not been presented with, nor could it find, clear, credible, and unambiguous evidence that, on balance, the current arrangements for the marketing of export wheat are of net benefit to Australian wheat growers or to the Australian community. The NCP guidelines place the burden of proof of net benefit on those arguing for the retention of anti-competitive legislation.*

While the Committee recommended that the ‘single desk’ be retained until the scheduled review in 2004 by the Wheat Export Authority (WEA) of AWBI’s operation of the ‘single desk’, they recommended the main purpose and implementation of the 2004 review should be changed so that it provides one final opportunity for a compelling case to be compiled that the ‘single desk’ delivers a net benefit to the Australian community.

In this conclusion the committee also said “*if no compelling case can be made by the time of the 2004 review, that there is a net public benefit, then the ‘single desk’ should be discontinued*”. The Committee has also made several recommendations on the introduction of competition into the current system.

2.4 Government Response to 2000 NCP Review

The Government balked on implementing all the recommended changes by declaring in April 2001 that they would retain the single desk and that it would not conduct the 2004 Review under NCP Principles. Mr Truss, the Minister for Agriculture, confirmed this when he released the Terms of Reference for the 2004 Wheat Review Panel (see Appendix 4). In a media release dated 23rd Dec 2003, Mr Truss said “*the Reviews Terms of References clearly indicate that the review is not an investigation of Australia’s single desk arrangements, nor will it seek to duplicate the National Competition Policy Review held in 2000.*”

The government is avoiding the issues of the net benefits of the wheat single desk in the current 2004 review. The NCC confirmed the Commonwealth had not met its CPA clause 5 obligation relating to the regulation of wheat export marketing in their 2003 Annual Assessment. The PGA believes the current NCP Inquiry needs to investigate this and demand that the recommendations Irving *et al.* gave after the 2000 Review should be implemented immediately. There is no conclusive evidence that the single desk delivers net benefits to the Australian grain growers or the Australian economy. Unless net benefit can be proved the public benefit test set down by the NCP cannot be used as a reason to retain our current wheat marketing arrangements.

2.5 The Wheat Export Authority

The Wheat Export Authority (WEA) was originally constituted under the Wheat Marketing Act 1989 to control the export of wheat from Australia, after the transfer of the Government’s wheat marketing and selling role to a private company controlled by wheat growing shareholders (AWB Limited). The WEA claims to operate independently from AWB Limited and its subsidiaries, which include AWB (International) Ltd (AWB (I)) however the power of the WEA to control the export of wheat is constrained. The amended Act requires the WEA to consult AWBI before consenting to the export of wheat; for proposed exports in bulk, the WEA cannot consent without AWBI’s approval. See the functions of the WEA in Appendix 5.

After the 2000 Review, the Federal Government also declined to amend the Act to ensure the independence of the WEA, particularly in relation to the export consent arrangements. It reasoned that removing AWBI’s role in these arrangements would change the balance between the operations of the WEA and AWBI, citing the AWB’s upcoming listing on the stock exchange as the reason.

2.6 Failings of the WEA

The PGA argued in 2003 that WEA had not achieved its intended purpose, performed poorly and even damaged Australian exports and market development opportunities. The PGA described a number of contributing factors:

- The WEA mandate which exclusively protects the main license holder, AWB International (AWBI), which disregards the impacts on rest of the industry,
- The WEA does not appear to be qualified or able to administer a reasonably balanced industry wide approach
- That WEA does not appear to be independent of the companies it purports to regulate, the AWB group of companies.

The PGA suggested that WEA be completely independent of the AWB group of companies and that the requirement for referring applications to AWBI be completely removed. While WEA is required to 'consult' the organisation, it is meant to regulate the possible perception of dependence or compromise will remain.

The PGA believes the WEA is focused on administration of applications for wheat exports but it apparently played little or no role in what some see as larger issues involving the abuse of the privilege of the single desk license. Issues like the separation of AWB Ltd and AWBI Boards, industry information transparency, AWB Ltd and AWBI stock swaps policies, discriminatory and limited access to pools, freedom of delivery at different access points for wheat do not appear to have the attention they deserve. All of the above examples have serious impacts on the returns of Australian growers. Many of these issues are also addressed in the Kronos Report 2002.

The NCC expresses concern in their August 2003 Assessment that the revised arrangements for WEA are substantially more restrictive than the regime recommended by the 2000 review.

Having an independent and uncompromising WEA whose prime role is to ensure that the single desk is managed properly should be a priority to the government as without it there is no confidence from growers or other exporters outside the AWB Ltd. The PGA is concerned that the Federal Government has not addressed the 2000 Review committee's recommendations to amend the Act to ensure the independence of the WEA, particularly its role in controlling exports. This point was made to the 2004 Wheat Review Panel when the PGA met with the committee in April 2004.

Recommendation

Based on this evidence and that contained in APL's second submission on feed grain (pages 48 to 55) WAPPA strongly recommends to the Commission that as part of its final deliberations it recommends to the Government that the current Single Desk Marketing Arrangements (or monopoly) for the marketing of export wheat be reviewed as a matter of urgency to determine the impact the single desk arrangements have on the feed grains with specific reference to the intensive livestock industries particularly during the last drought. Further to this, WAPPA

recommends that the PC provide in its final draft more substantial proposals on how this matter can potentially be addressed, based on existing reviews and research.

5. ENVIRONMENTAL GUIDELINES/POLICY

National Environmental Guidelines for Piggeries

APL released the National Environmental Guidelines for Piggeries in August 2004. The Guidelines provide a benchmark for assessing environmental sustainability of piggeries. They are to be used by industry, regulatory authorities and the wider community to:

- **assesses environmental performance of piggeries**
- **obtain information on best practice**
- **achieve positive environmental outcomes**

WAPPA, like APL, is concerned about the lack of uniformity in the application of piggery planning guidelines, environmental policy and regulations between states and within states at regional and local levels. We respect that community's demand and expect increasingly stringent environmental regulation on all forms of developments.

The result of this is that producers face increasing barriers to piggery developments or improvements, even in isolated and relatively environmentally insensitive sites.

The industry is under increasing pressure from regulatory authorities to demonstrate that they take every practicable step to minimize the likely environmental impacts of piggeries. This is apparent from the increasingly stringent regulatory requirements imposed on piggeries. The development of these guidelines by APL, in conjunction with state government departments and environmental authorities, the research community and producers, incorporates the latest scientific information and a risk assessment approach. It will facilitate a consistent environmental regulatory approach throughout Australia and will, pending local government regulations, streamline new development proposals, facility upgrades and compliance with licence and approval conditions.

WAPPA's major concern with these guidelines is that although they have been developed with the co-operation of state government departments and environmental authorities, the research community and producers, **legislative and planning requirements over-ride industry guidelines and codes of practice, including these national guidelines.**

Recommendation

WAPPA believes that in order for Australia's pork industry to confidently expand, the National Environmental Guidelines for Piggeries developed by the industry and the various state regulatory bodies, needs to be enshrined in legislation. WAPPA strongly believes such actions will avert the Australian industry encountering the sorts of prohibitive environmental requirements evident in the EU which has resulted in significant constraints on the capacity of many European countries' pork industries to be viable, let alone expand (e.g. Netherlands).

6. LABOUR

In the Draft Report the Commission sought information on government or industry activities that may materially impede business decisions regarding labour recruitment and retention.

In WA it is increasingly difficult for the industry to attract reliable and skilled labour. This is partly due to the economic plight of the industry and producers' inability to compete with the current strong demand for labour from other industries offering more attractive choices and providing better conditions, particularly for young people.

Policy Action to improve Labour

The industry in WA has been pro-active with its training programs to both employ and retain personnel in the industry.

WAPPA believes that until the industry has the policy support of Governments and structural reform in place it will not be able to compete fairly and equally with its international competitors.

WAPPA believes this can be achieved if the recommendations submitted to the Commission by the industry are adopted and implemented, hence creating an environment for producers to pro-actively focus on improving working conditions and wages for staff.

The maintenance of the Government's Traineeship/New Apprenticeship Scheme, which provides a range of incentives for producers to employ and train staff, is critical to the industry's future sustainability and prosperity.

WAPPA'S WISH

WAPPA trusts that with the volume and quality of information the Commission has before it, that it will recommend in its final report to Government:

policies, procedures and practices that if applied to the pork industry will help make it internationally competitive and a positive and influential part of the rural landscape and local communities of this great country.