

**South Australian Farmers' Federation**

**Submission for the Public hearings to discuss the  
Australian Pig Meat Industry Inquiry**

**Adelaide**

**February 2005**



**SOUTH AUSTRALIAN  
FARMERS FEDERATION**

*Proudly supported by our  
Corporate Partner*



*"A Distributor of BP Products"*

# CONTENTS

Introduction .....	3
Complaint over the Terms of Reference (TOR) .	5
Complaint over Analysis of Report Findings .....	7
Triple Bottom Line.....	8
Summary .....	10

## Introduction

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

Following the release of the Productivity Commissions Draft Report into the Pig Meat Industry, SAFF would like to address some areas of the report that we believe have not considered the arguments in the original submission put forward by our organisation and add further points for consideration by the commission.

SAFF have analysed the key points of the draft report. It is our opinion that the draft report identifies deficiencies in the industry but fails to correctly assess the significance of these deficiencies. For this reason SAFF will demonstrate that the draft report in its current form is detrimental to the South Australian and National Pork Industries.

The draft report correctly identifies that the Pig Meat Industry has seen significant structural adjustment. That while production has increased numbers of farms, abators and jobs have fallen.

SAFF also note your key summary shows that most producers have not been able to make a profit between mid 2002 and late 2003 and that in general producers were becoming less competitive in the international market.

The productivity commissions draft report has identified that there is a decline in the profitability and competitiveness of the pigmeat industry but does not recognise that the industry has insufficient resources to effectively return to competitiveness and profitability in the face of increasing international imports.

In this submission SAFF consider the main deficiencies of the Productivity Commissions Draft Report to be centred on the following items:

- *Terms of Reference (TOR)*- The terms of reference constrained the PC, particularly the short period it was given for the Inquiry;
- *Analysis of Report Findings* - It is difficult to assess the findings when the expected analysis is lacking in analytical rigour; and
- *Triple Bottom Line* - The report has not fully considered all factors that contribute to the bottom line of producers.

SAFF feel that the Productivity Commission Draft Report has failed to address some of the issues facing pork producers. This submission will show that:

1. the TOR have caused the Productivity Commission to fail to meet one its service standards from it's service charter and has constrained the findings of the report;
2. there are deficiencies in the analysis of the draft report findings; and

3. legislation and regulations effecting water use, animal welfare, environmental management, labour accessibility property development etc have been placing increased pressure on the competitiveness of South Australian Pork Producers. Further more that failure by the PC to recommend action to stop the decline of farm numbers contradicts one of its broad policy guidelines.

## **Complaint over the Terms of Reference (TOR)**

SAFF feel that the TOR have constrained the Productivity Commission (PC) and have caused it to fail to meet one its service standards from its service charter and also has constrained the findings of the report.

SAFF has particular concern with the short period that was given for the Inquiry to take place. The unusually brief time frame has clearly put both industry and the Productivity Commission under significant pressure to complete submissions and subsequently the draft report.

The pig meat industry has only been given 5 months (or less) to complete the inquiry which included many lost working days due to the Christmas and New Years holidays. Other PC Inquiries have been given a much more satisfactory time frame such as:

- Inquiry into the Economic and Environmental Potential Offered by Energy Efficiency – **12 Months.**
- Review of National Competition Policy Arrangements – **9 Months.**
- Inquiry into the impact of Advances in Medical Technology on Healthcare Expenditure in Australia – **12 Months.**

The pressure of meeting tight deadlines has made it extremely difficult for SAFF (a not-for-profit organisation with extremely limited resources) to provide comprehensive submissions. SAFF resources only allow an allocation of 0.083 of a full time employee to the pig meat industry. Our organisation has been stretched to its limits trying to respond to the commission in time. This inquiry is of great significance to the industry and as a consequence industry and the PC should be given more time to provide comprehensive reports.

SAFF are of the opinion that the PC has not been able to fulfil its service charter because of the tight time frames. The PC Service Charter which has been effective from August 2003 clearly states:

### **The service standards you can expect:**

- **We will provide sufficient time and information to facilitate public participation in our work.**

Whilst the service charter uses ambiguous terminology like 'sufficient' time we believe that in this case sufficient time has not been given. The Inquiry has been undertaken by the Productivity Commission for the Pig Meat Industry and as the peak body representing South Australian Pigmeat Producers we feel we have not had adequate time to provide significant additions to the draft report.

It is also evident that the report has suffered from the inhibited terms of reference and the lack industry consultation when developing them. Whilst industry is pleased that the TOR are broad the time frame provided to achieve them is drastically unrealistic.

The PC should request an extension of its timeframe to enable it to allow industry to provide more substantial analysis and to allow the PC more time to consider this evidence and validate its findings with more comprehensive analysis.

SAFF also feel that the terms of reference appear to have been misinterpreted by the PC. Two areas of particular note include:

- key factors influencing the profitability of the industry; and
- the competitiveness of the pigmeat industry.

It is clear by the findings of the draft report that evidence provided by the SAFF submission regarding the effect of legislative and regulatory changes on both profitability and competitiveness has not been considered. This will be discussed later in the submission under the heading *Triple Bottom Line*.

## **Complaint over Analysis of Report Findings**

After considering the overall representation that the draft report provides of improved competitiveness in the Australian pigmeat industry during 2004 SAFF feels that the PC has not completely considered all the factors involved in analysing this issue.

We believe the report fails to quantify the profitability recovery that it suggests has occurred in 2004. We therefore believe it is impossible to say if this recovery has been sufficient enough to consider industry 'recovered'.

Producers have incurred significant debt in the last few years because of drought, low prices and high feed costs. Finance has been used to maintain the day to day operation of the farming business. Producers in SA have reported to SAFF and the PC that industry has made no investment in capital improvements to increase their competitiveness and/or sustainability. In fact producers in South Australia have been unable to fund general maintenance of late due to lack of capital.

Without further analysis of the industry it is not prudent to assume that the industry has recovered its profitability and competitiveness. By talking to producers and visiting their properties it is plainly obvious that they do not feel their industry has recovered which should suggest further analysis is required. Further more no quantitative evidence has been provided in the draft report to prove the contrary.

The draft report correctly identifies the pig industry as having high capital investment with very low margins. This would suggest that a return to profitability for the industry should be measured against a range of factors including return on investment which the report has not considered. It would also suggest that a return to profitability would be gradual and would not be likely to occur in the space of a season.

Further to our original submission SAFF would also like to put forward a further point of consideration for the PC on the issue of profitability. In the past 10 years the industry has endured massive swings in profitability. This has not enabled producers to maintain a strong financial base leading into the Australian drought. In only three of the past 10 years (2000, 2001 and 2002) has profitability reached adequate levels for what is considered long term business sustainability. One of those three years was due principally to the FMD outbreak in Europe resulting in substantially reduced Danish imports.

## **Triple Bottom Line**

### **Interpretation of TOR**

Legislation and regulations effecting water use, animal welfare, environmental management, labour accessibility and property development have been placing increased pressure on the competitiveness of South Australian Pork Producers. Failure by the PC to recognise all of these impediments and failure to recommend action to stop the decline of the industry is in direct contradiction to one of its broad policy guidelines.

SAFF have recently released a report entitled *“Triple Bottom Line for the Bush” (Report Attached)*. The report is being used by the SA Government to develop a plan for regional SA. The report outlines that throughout the developed world farmers are required to provide multifunctional outcomes for their societies. Farmers are now seen as stewards of the land on behalf of the greater community.

This new role farmers play as ‘stewards’ is directly linked with legislation and regulations. National Guidelines, State Legislation, Regulations all the way down to Council Planning rules have transformed the average pig farmer. Today they are experts in quality assurance, animal welfare promoters, environmental managers, waste disposal specialists and property developers.

Undertaking all of these increased roles demands resources and is a direct contributor to the downward pressure on profitability and competitiveness of industry. The PC draft report has not addressed this issue even after it was identified as a major contributing factor to impeding the pork industry in the SAFF submission.

### **This is evident by the following passages from the draft report:**

*Page 31 - “competitiveness depends on all of management’s choices (inputs, technologies, product mix and markets), as well as factors external to the business”.*

Whilst external factors are listed further in the draft report there is no mention of legislative or regulatory factors and the effect they have on both competitiveness and profitability. This shows that the PC has not considered the “Triple Bottom Line” and has not properly interpreted the TOR mentioned above as:

- key factors influencing the profitability of the industry; and
- the competitiveness of the pigmeat industry.

### **Failure to adhere to broad policy guidelines**

Page 61 of the draft report states that Inquiry participants suggested some sectors of the industry may face difficulties in recruiting and retaining staff. Possible reasons given for this difficulty include the relative isolation of some farms, the working environment and relative wages.



This decline in Labour is explained in the “Triple Bottom Line” and it is shown there are two main consequences from these changes:

- a reduction in the number and size of small towns (together with a rise in the size of larger rural centres); and
- pressures on the environment from farmers’ continued attempts to raise farm productivity and to farm larger areas (with fewer people and resources).

The report goes on to show that if left unchanged agriculture in South Australia (and Australia) is not sustainable. If it were to continue as is, farm and farmer numbers will continue to fall, small regional towns will continue to wither and die, and damage to the environment will become worse, not only from the intensification of agriculture in some areas, but by the abandonment of other, less productive areas, to feral weed, pest and animal invasion.

The failure of the draft report to recognise the increasing decline of farm numbers together with evidence provided by the SAFF “Triple Bottom Line” report which clearly shows the regional consequences of a continued decline in farm numbers is in direct contradiction to the broad policy guidelines covering all of the Commission’s work.

The broad policy guidelines referred to state in brief, that the Commission is required to:

- recognise the interests of the community generally and all those likely to be affected by its proposals; and
- promote regional employment and development.

Based on this evidence SAFF consider the commission in this draft report has not successfully met its broad policy guidelines.

## **Summary**

SAFF consider that the draft report is incomplete until it fully considers and refers to the issues mentioned above.

For SAFF to consider the draft report complete we require:

### ***Analysis of Report Findings***

*Quantify Recovery* - The draft report must fully quantify the profitability recovery that it suggests has occurred in 2004. Once this has been achieved it will be possible to display if this recovery has been sufficient enough to consider industry 'recovered'.

*Consider Further Evidence* - The draft report must consider further evidence provided for the last 10 years which shows producers were not able to maintain a strong financial base leading into the Australian drought.

### **Triple Bottom Line**

*Interpretation of TOR* - the draft report does not mention legislative or regulatory factors and the effect they have on both competitiveness and profitability. This shows that the PC has not considered the "Triple Bottom Line".

*Failure to adhere to broad policy guidelines* - The failure of the draft report to recognise the increasing decline of farm numbers together with evidence provided by the SAFF "Triple Bottom Line" report is in direct contradiction to the broad policy guidelines covering all of the Commission's work.

### **Terms of Reference**

The PC should request an extension of its timeframe to enable it to allow industry to provide more substantial analysis and to allow the PC more time to consider this evidence and validate its findings with more comprehensive analysis.

SAFF will also elaborate on other issues facing the pork industry during our verbal presentation on Friday.