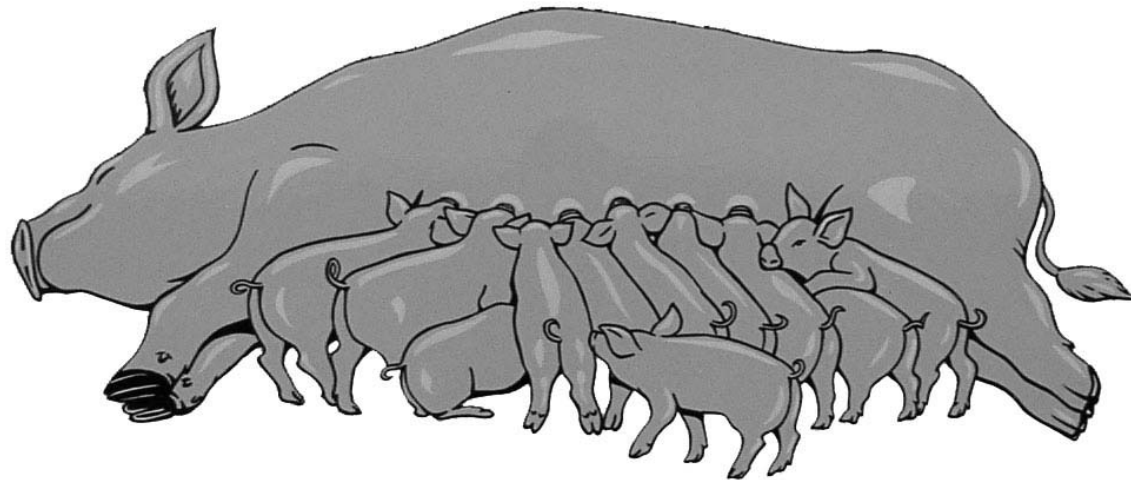


Ludvigsen Family Farms



“Productivity Commission Inquiry
Submission 4th Feb 2005”

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Introduction

- When I entered this industry in November 1993 I accepted that Australia is part of the world economy.
- I knew from January 1994 that I needed 2000 sows to be internationally competitive ASAP.
- I knew a lot of work lay before us to achieve that goal and that the goalposts would be moving as we grew.

Introduction cont.

- As an Economist I was aware of the benefits of free trade and the notion of comparative advantage.
- If I had not seen huge opportunities I would never have entered the Pig industry.
- I did not see a future for pig producers that failed to come to terms with the new world economic order.

What the industry must do

We must commit to world's best practice and seek to achieve it in all aspects of our businesses.

- Pig husbandry
- Human resources
- Business structure
- Finance
- Engineering

What the industry must do

We must commit to discover if we have a future and then seek to exploit that future.

This presentation seeks to suggest what that future might be and what needs to be done to realize it.

The analysis we have made

We have looked at where Ludvigsen Family Farms (and the Australian Industry) can compete and where it cannot.

We looked at our comparative advantages and decided we have a real opportunity to make a large and prosperous industry in Australia but many changes need to be made to exploit that opportunity.

Why did we choose the pig industry?

- Aust. agricultural product mix historically based on selling wool, wheat, wine, mutton, beef etc to England.
- Asia is becoming centre of world trade and facing food shortages.
- **Asians eat pork, rice and wear cotton.**
- Aust has great comparative advantages in some specific areas of pork production

Comparative Advantages

- Nearness to Asian markets
- Aust pig industry has high health status
- Ample space to raise pigs
- Ready source of feed grains
- Climate
- Food safety guarantees/traceability
- Educated workforce
- Geographically protected location (remote island)

Where cant we compete?

- We cannot produce as cheaply as other countries because of their economies of scale in production, processing and retail.
- Smithfield Foods 1,000,000 sows
- Premium standard farms 225,000 sows

Where cant we compete?

In USA processing

■ Smithfield Foods	112,000 pigs/day
■ Tyson	72,000 pigs/day
■ Swiftfoods	46,000 pigs/day
■ ?	?
■ Hormel	34,000 pigs/day

Where cant we compete?

In Australia production

■ SA produce 5000 pigs per day

In Australian processing

■ Primo Smallgoods who are Coles principal
supplier 1100 pigs/day

Effect of these economies of scale

- This means other countries costs are well below anything Australia can muster.
- Result. Australia cannot compete with the larger countries on a straight cost basis.
- This is why we import frozen pork for processing into ham and bacon and why I believe we will inevitably lose that market domestically

Denmark

- Denmark has Dankse Slaughterie, a producer cooperative that has a monopoly on genetics, slaughter etc to gain those advantages for their producers.
- They also have huge economies of scale.

Where does Australia have advantage over this?

- When we examine the facts Australia has an enviable advantage and a reason why we have Danes interested in investing in our business.

1.Nearness to Asian Markets

- Singapore Airlines offer back load rates from Adelaide and Melbourne 6 times per week in 7 hours.
- Very low freight 70c/kg
- From Singapore to rest of Asia very easily
- Singapore Airlines cool centre means cool chain not broken.

Can USA, Canada or Denmark deliver fresh to Asia?

- Time is essential, Planes cannot cool containers. Dry ice cools containers and it disappears in a few hours. The time to Asia from these destinations is too long to maintain the cool chain.
- Cost is important. Air freight cost of US \$3-5 /kg to Singapore more than doubles the price of the article and makes it a non event.

2. Food safety

- Australia has now some excellent abattoirs and a reputation in Asia for food safety.
- We all are aware of the dangers of eating the food and drink in Asia and this is a risk all Asians take daily.
- Their wealthy citizens can now afford to remove that risk by buying from clean suppliers.
- They do not trust their domestic supplies.

We see Two separate markets for pork.

- We see a pork commodity market with huge demand and huge supply. (70% of Asian meat eaten is pork).
- This market is price driven and the price is low.
- It is exchange rate sensitive.
- We cannot compete in this market due to our high cost due to low economies of scale

We see Two separate markets for pork.

- We see a second market that is for quality, fresh and food safe pork.
- This market is characterized by very restricted supply and demand is large compared to that supply.
- This market is quality driven and price is very high.
- Australia is one of the few countries that can meet this market.

Why aren't we doing this now?

- Three years ago we had very little export abattoir capacity. The last productivity commission had the foresight to recommend \$26 million to remedy that and it has been extremely successful.
- We now are exporting pork to many countries.
- However we are only exporting carcasses.

Boning and packing sectors weak.

- While we now have export abattoirs we don't yet have the boning rooms and packing facilities to get full advantage of our position.
- Those boning rooms we have are simply cutting into pieces and are **too small** to cope with domestic demand.
- We do not have anywhere near enough trained boners to prepare carcasses for export

Boning and packing sectors weak.

- We export whole carcasses and they arrive in Singapore (etc) where they are cut up, value added and individual cuts sent around the Asian Markets.
- Other countries are getting most of the value in the production chain.
- We need to do that here in our own facilities.

Boning and packing sectors weak.

- When we export whole carcasses we can only export a commodity.
- We cannot send each part of the pig to its highest price markets as other exporting countries do.
- Eg loin to Japanese restaurant, neck to Korea, feet to Russia etc.
- If we can have meal ready portions, the market is even higher value.

Boning and packing sectors weak.

- To expand this sector we need more
 1. Chillers
 2. Much larger boning rooms
 3. More trained boners
 4. More highly trained boners to meet market specification
 5. Packing rooms that prepare meal portions at export quality.

What do we need?

- We need \$ 40 million or so to be put into our boning and packing sector real fast to take advantage of the opportunity in front of us now.
- Our abattoirs are fully stretched in financing expanded killing capacity and rationalization over the past 4 years.
- They have done well but need assistance.

What do we need?

- If we don't develop this capacity quickly an opportunity will be lost.
- We will be passed by other countries in the Asian region.
- US and Europeans could build integrated farms and slaughter houses in the Asian region to service this opportunity.

What should the productivity Commission do?

- This productivity Commission should look at the results from the previous PC and take our industry through the next step.
- I believe the PC should recommend that the Federal Government supply \$40-50 k. for expansion of our industries export capacity.

Genetics

- I note that the PC has asked for more information on importing of superior genetics to Australia.
- I believe we need to rectify this situation immediately. We are way behind the rest of the world genetically.
- Average Danish farmers wean 12 pigs/litter. Our best wean 10 pigs per litter.

Genetics (cont)

- Their growth rates with diseases are better than ours basically disease free.
- All other Australian Livestock industries have been able to develop protocols for safe introduction of superior genetics.
- They have made incredible leaps in performance without breaking to disease.

Genetics (cont)

- I believe our motivation has been to try and argue for a ban on meat imports by denying ourselves the benefits of superior genetics.
- The result is that we face world competition with genetics that are many years behind the rest of the world

What should the PC do on Genetics?

- I believe you should recommend that our industry establish protocols to bring superior genetics into Australia safely.
- Without these genetics we are destining ourselves to be uncompetitive in any markets. Even our own.

Corrupt Markets.

- Our industry is plagued by corrupt markets.
- Our prices are set on a few hundred pigs sold at Ballarat (VIC) and Dublin (SA) etc.
- That price is then the basis for prices made by abattoirs around the country.
- This market is very open to manipulation and often is.

Corrupt Markets.

- I believe one person buys for four companies at Dublin, removing competition in that market.
- Does this happen in the other live markets?
- Is this Price fixing.
- If they made this agreement at a table it would be collusion.

Corrupt Markets.

- We also only have two major buyers in Australia being the two major supermarket chains.
- Their degree of market power is overwhelming.
- We need export markets to bring serious competition to the market place.

Boar taint

- Our industry does not castrate male pigs.
- This causes boar taint in some of our meat.
- This is not acceptable to consumers.
- We have the opportunity to use IMPROVAC to remedy this but our industry has been slow to take it up.
- We need to have you recommend on this.

Feed Costs

- We need to have the single desk for grain removed.
- Every economist know it cannot affect Australian prices in world markets but can have huge implications in the domestic market when quarantine denies us the ability to import.
- Recommend that government treats all industries equally and remove the single desk.

Feed Costs

- We need to have the single desk for grain removed.
- Every economist know the single desk cannot affect Australian prices in world markets but can have huge implications in the domestic market when combined with quarantine restrictions on imports.
- The process is called price discrimination and is in every Economics one textbook.

Attracting quality graduates

- Our industry must attract quality graduates in all aspects of our supply chain.
- We need quality people in all aspects from the feed mill through production to the final consumer in Australia and export markets
- Help should be given to encourage graduates into this area.