

AusPork Australia -- Submission to the Productivity Commission Inquiry into the Australian Pig Meat Industry.

Company Background:

Auspork Limited is an unlisted public company wholly owned by pig farmers. It was formed in 1986 as a direct response to the reduction in the number of outlets for pork from non-corporate farms, and to ensure farmers were treated equitably beyond the farm gate.

The company has grown from owning no assets in its early years as just a marketing venture, to a business today that has the following strategic assets:

- ❖ The company has invested in its Abattoirs, and other marketing infrastructure in excess of \$10,000,000. Our turnover is between \$80 and \$90 million per year.
- ❖ We slaughter and market between 7,000 and 7,500 pigs per week throughout the Eastern States and SA.
- ❖ Own the export registered Daylesford Abattoir in Victoria. Capacity to kill 6,500 to 7,000 pigs in a single shift per week – but only killing 3,500 to 4,000 today due to the consequences of the drought and industry uncertainty.
- ❖ Own the export registered Daylesford Pork Products Boning Room. Capacity is up to 2,000 pigs per week but currently only doing 250 pigs per week.
- ❖ At the Daylesford site, we currently employ approximately 50 people.
- ❖ Auspork and 2 of its key shareholders, own 50% of the export registered Big River Pork Abattoir in SA. This includes a boning room with a capacity in excess of 4,000 pigs in a single shift.
- ❖ The total Big River Pork investment was in excess of \$22 million, with a current workforce of over 120.
- ❖ We own a 50% share in a Joint Venture in Singapore that imports carcasses, and until recently boned these into products for case ready supply into supermarkets in Singapore.

Broad Marketing Approach:

Auspork is a diversified wholesaler of pork and pork products, but primarily today focused on carcasses. We have a variety of customers in Victoria, NSW and SA, ranging from major manufacturers (Primo, George Weston Foods), to large Boning Rooms (B.E. Campbell), to smaller regional Boning Rooms/Manufacturers, to small butcher establishments. Additionally, we have been involved in the Singapore market since its initial development in 1999.

We control approximately 7% of the carcasses in Australia and in recent years have supplied as much as 17% of the Australian Pork going into Singapore. Additionally via our suppliers we have been a strong supporter of the Japan market with up to 10% of our pig supply directed via this outlet.

Both these markets were supported over 3 year plus periods, where the majority of time Auspork and/or its suppliers incurred losses for the sake of the Australian industry's long term development. With no help from the majority of the rest of the industry to support these efforts, we have in recent times stopped 'wasting our money' - now focusing almost solely domestically with the consequences of more pigs on the Australian market.

Issues of Concern:

We realize that many submissions will be given to the Commission. Therefore, the following is NOT all inclusive of the issues we feel need to be addressed. It only includes areas where:

- We have a few first hand experiences to share with the Commission, OR
- We feel particularly passionate, OR
- Where we may have a slightly different perspective given our farmer/abattoir/processor/marketer link that is somewhat unique in the industry.

Also, we would point out that we fully endorse the submission from the Australian Pork Farms Group, as they have tried to cover the main "farmer based" components of key issues.

Pig Weights:

Our industry is being exploited by these further down the chain (some would say intentionally!) given that Australia has evolved to 3 specific weights of pigs for the products it produces:

- 40 to 65 kg carcass for fresh meat
- 65 to 80 kg carcass for Bacon production
- 75 to 95 kg carcass for processing/manufacturing.

The problem is the carcasses are not used in an exact balance to the cuts available, so that producing, for example, a bacon pig means that the ham (1/3rd of the pig) is priced against ham meat from Canada that comes off a heavier pig with 15c plus lower cost of production, 'just through differential weights'.

So certain cuts assume a value that is based on import meat pricing – and as the pig is essentially divided into thirds (shoulder, middle, ham), our Australian pricing is 2/3rd set by Denmark (Middle) and Canada/US (Ham). And these reference prices are used (and manipulated) by buyers (manufacturers) no matter what weight is being considered.

Long Term Pricing Stabilisation:

Over the past 3 years, Auspork has been very active in requesting, pushing, encouraging/exploring price stabilisation options with manufacturers and/or retailers. Very small headway has been made as no one is prepared to do it for fear of being out of step with their competitors.

We, and our farmers, are happy to give up the high cycle, for assurance of cash flow in the low cycle, but have yet to find parties willing to make this work on a long term, equitable basis. We believe it is fundamental for a long term viable industry.

Abattoir/Processing Rationalisation:

To compete in a global market, Australia has to find ways to have economies of scale beyond the farm gate. Rationalising Abattoirs and Processing (and probably manufacturing) must be encouraged. We believe we took a first step towards this with the Big River Pork concept, where competitors came together to build efficiencies and allow technology adoption, for a 'component' of their businesses.

This should be expanded to a broader section of our industry. Fewer, larger, better facilities will be critical – especially with the ongoing and increasing burden of compliance and labour costs that government and others seem intent on pushing with no regard for its business survival consequences. (Work Cover; EPA; AQIS; OH & S; Food Safety; Taxes: Insurance).

Export Marketing:

Who are Australia's competitors in these overseas markets? We would argue that they are either a whole country acting as one entity (Denmark and their Co-op structure); or huge conglomerates as big, or bigger, than the whole industry of Australia! (Smithfield Foods; Seaboard Farms; Tyson Foods; Maple Leaf; etc).

Australia has hurt itself in Singapore through many small players jumping in and out of this market, depending on the economics of the day. In turn they undercut to get into the market place, dragging all prices down.

Similarly in Japan, potential exporters can't jump in and out, but those who are in the market often suffer large losses while taking product off the domestic market for other producers benefit.

A more equitable solution needs to be proposed. Australia can and must act as 'one marketing entity' for the benefit (equitably) of the whole industry. We are sure there are 'good' examples of how this can be made to work for our industry.

Examples of Imports affecting AusPork's Business:

1. **Issue:** In early September, a customer we have been selling middles to for well over 9 months, called up and cancelled all middle orders for a minimum of 6 weeks.

Reason: They had large stocks of frozen middles in store from Denmark plus middles that they had purchased and were in transit. Our price was competitive but because they had the stocks and had made the financial commitment, company policy was to stop our order.

Consequence: Suddenly, with no notice, we had 75% of our middle order cancelled. We now had to go out to the market and try to 'buy' a home for these on short notice. We couldn't freeze them (uneconomic), so as a perishable product we had to price them at a severe discount to move them.

2. Issue: At the end of September, a Melbourne Boning Room who we have dealt with every week for over a decade, called to cancel their normal order of 400- 500 carcasses per week indefinitely.

Reason: They had decided to close their doors for an extended period of time as they refused to continue to lose money. They deal only in Australian product and have been pressured to meet the price of imports. Their buyers were demanding \$4.80 per kilogram middles and they needed \$5.40.

3. In the same environment, Australian Boning rooms are being asked to meet tighter and tighter specifications for middles to match the Danes. However the Danes have the following set of circumstances allowing these specifications to be reached:

- ❖ An industry that is 4 times as large as Australia's
- ❖ Focused on only a few, large capacity abattoirs, that have received significant technology investment from an industry legislated to act as a co-operative, plus from Government.
- ❖ As an export focussed industry, with state of the art grading equipment, only the very best middles are selected to go overseas.
- ❖ The poorer middles are redirected domestically, and/or into a country that has other uses for 'secondary quality middles', (Alternative manufacturing products).

4. Issue: A large number of establishments are now able to handle imported product. This is significantly different from a few years ago. A number of consequences arise:

- ❖ Traditional Australian companies (some of whom still proudly promote their Australian base as "Made in Australia", Product of Australia, or "Proudly a South Australian Company") have very little Australian pork in their products! We have waited while Federal Ministers in power have given "lip service" to this albeit difficult issue which has consistently "deceived consumers". We find this an unbelievable system in the food industry, and it is a strong reason we endorse the "Home-grown" concept as a compromise to try and get some "honesty" back in the system.
- ❖ The manufacturing industry now can increase the volume of imports coming into Australia very quickly if they feel the pricing is wrong, OR just want to squeeze the farmer. This adds to short term gyrations with no certainty for anyone in the chain as supply can be turned on or off every other month if need be.
- ❖ It is also used as a form of market blackmail (or threat!).
- ❖ Small businesses that want to, or can only use domestic product, cannot compete. Yet again, the small regional company is driven out of business due to short term market manipulation.

- ❖ Having observed many of these smaller importers operations, we know how they operate. There is little doubt in our minds that the protocols on imported meat;
 - will get bent (or broken),
 - cannot be strictly monitored, and
 - ultimately a disease like PMWS, with our poor knowledge of how it is transmitted, will get into Australia, just like it has come into New Zealand.

Bang! – another nail in our industry’s coffin – as we lose another competitive edge in trying to compete in one of the few areas of advantage/distinction that we have with Europe and North America!

Export Potential and Health:

Our group strongly believes Australia has export potential. It will be driven around competitive costs of production, competitive further processing, AND distinctive product. Key to the latter will be the health of our pigs and how they are raised.

As an industry, many repopulations of herds have been invested in over the past 18 months. This trend will continue as the benefits and value are seen. It must be encouraged by the industry plus resources given to assist to minimise the considerable cost.

At the same time, it becomes a mockery if IRA and FTA are driven by political agendas and horse trading, that does not allow science and a consistent, and yes, also that a “least risk” assurance process takes place. Yes, we are paranoid about it – but only because it means;

- so much to our future competitiveness,
- to the value of our product,
- to its value to consumers who will demand higher and higher food safety standards, and
- to enable distinction in our products to whomever we sell to globally.

Export Level Playing Field:

Whatever the market – domestic or international – all we will ever ask for is a level playing field. We realise this is a key plank for Australia’s agriculture industries. But the Government cannot take a “whiter than white” approach when they insist we have to compete with industries that do not!

A recent, very relevant additional item came to our group’s attention that highlights one more example of the type of “overt subsidy/agriculture assistance” that we must compete against. It was announced on the 28th of September that “The European Commission approved a new 2 million Euro ‘investment’ in promoting pork.” It states this is directed entirely at promoting Danish pork outside the EU – with Australia being one of the export markets funds directed towards. This subsidy is directly to the major Danish exporter of pork.

Another example of the type of subsidies that are “killing” any sort of competitive position we have in our industry, AND as illustrated undermining our domestic pricing system. How many others subsidies like these are we unaware of?

CONCLUSION

We are a business totally dependant on 100% Australian Pork. We will always be this way. Therefore we have been and are continuing to be impacted with less Australian supply and/or the demand for this supply being unfairly impacted by imports and their pricing.

The pressures on this vital Australian industry are enormous at present. It is an industry that has asked for very little assistance in the past – and is always very proactive in doing new and unique things to help itself. But it is on its knees at present, and needs time and assistance if it is to survive. We are a competitive industry on a global scale when given similar economic and/or governmental support as other industries we are being asked to compete against.

I would be happy to talk about any of these points further to the Commission and can be contacted at 0421 072 779 or by email at amrk@ozemail.com.au.

Additionally, someone from our group would request the opportunity to further address the Commission. We would like to attend and/or present to the Commission in the public hearings scheduled for December 2004. Our preference is to attend a meeting in Adelaide.

Yours sincerely

Rod Hamann

Executive Director – AusPork Australia P/L