

October 1 2004

Pigmeat Inquiry
Productivity Commission
Locked Bag 2
Collins St East
Melbourne VIC 8003

Fax: 03 9653 2305
Email: pigmeatinquiry@pc.gov.au

Dear Commissioner

Submission to the PC Inquiry into the Australian Pig Meat Industry

This is a submission from Gunpork Joint Venture to the Productivity Commission Inquiry into the Australian Pig Meat Industry. In this submission, I wish to address among other things, issues relevant to the sustained profitability and competitiveness of my farm business, including the damaging impact of imports on the industry and the need for appropriate trade measures to be implemented to benefit the Australian pig industry.

1. Farm Structure and Activity

Gunpork Joint Venture operates a farrow to finish piggery of 1,200 sows with about 12,500 total pig numbers on two sites in the Gunbower and Patho regions. The business commenced in 1991 when a group of investors purchased a bankrupt piggery. At the time it was a 400 sow piggery with no prospects. By employing new technology and refurbishing the unit we were able to turn this bankrupt unit into a profitable enterprise.

We were able to expand this unit into a two site production system with sows and suckers on one site and the grow out stock on a new site. The new site was selected within the rural zoning area designated as suitable for intensive farming. The new site was purchased and developed to incorporate the new technology of "all in-all out" production methods for the grow out stock. The site has also obtained a permit to further extend the business to develop to 1600 sows.

The piggery sources its feed from a local feed mill (Ridley's Agriproducts at Cohuna) where along with other pig farmers in the district (in our buying group) we purchase between 50 and 60 percent of the Mill's production. We also purchase most of our grains from the surrounding districts.

In addition to the grain rations we feed milk by-products from a variety of local dairy factories. Thus forming a useful partnership in that we are able to utilise waste milk products that would have to be disposed of in a more expensive and not as environmentally friendly manner.

Our piggery numbers have remained the same for the last 18 months due to the uncertainty of the drought and then followed by the affect of poor pre Christmas prices in 2003. The expansion we were planning has had to be put on hold. We commenced and

completed the first stage of our development during the drought of 2002-2003 as we saw that providing for drought was a normal part of doing business in the farming sector in Australia.

We have consistently sold pigs at 75kg HSCW until this last year where the changing of the pricing of a carcass specification has resulted in us selling carcass weights of a 68kg average.

In the last two years we have down sized our staff by 2 people from 12 to 10. Thus leaving a greater workload on the remaining staff. The real affect is that family members take up the extra workload; often working weeks on end without a break. This is a business that must run 7 days a week.

2. On farm profitability

(Confidential information removed)

General Notes to profit figures:

The structure of the business is such that wages for those who own the business are paid as part of the business expense. The above profit figures indicate the return on investment after all interest has been paid.

The profitability of our business has change considerably over the last year. I have assumed to ignore the drought year because I believe that such years are part of the normal agriculture cycle in Australia.

Factors that have affected this profitability:

Price Fall prior to Christmas 2003 of 40 cents per Kilo.

The calculations for our business of a sudden unexpected price fall is as follows:

- Average weight of Carcass 75kg selling 440 pigs per week.
- Given the effect of the down turn affected one quarter of the year.
- $75\text{kg} \times .40 \times 440 \times 13 \text{ weeks} = \$171,600$ for the quarter
- Drop of carcass weight by 8 kg. I will do the calculation for a quarter although the impact has been for most of the year. For ease of calculation assume the following:
 - Feed conversion of 2.8kg feed for 1 kg of meat for the grow out stock
 - Cost of finisher ration .26 cents per kg
 - No calculation for the cost of facilities as assumed to have these as we were growing out to the higher weight already.
 - Sale price per kg dressed is \$2.00, higher prices have greater impact.

Calculation per pig:

$8\text{kg meat costs } 2.8\text{kgs feed} \times .26 \text{ (cost of feed per kg)} \times 8 = \5.82

$\text{Sale price of the meat is } 8\text{kg} \times \$2.00 = \$16.00$

$\text{Impact on profitability } \$16 - \$5.82 = \10.18

Impact on Profitability for a quarter:

$440 \text{ pigs sold per week} \times \$10.18 \times 13 = \$58,229 \text{ or } \$232,914 \text{ per year.}$

These two factors indicate the significance of both these events on the profitability of our business. During the same period we have seen rises in many of the costs of being in business.

Conclusions I draw from the above:

The impact of sudden price changes within the market place has extreme affect on the profitability of farms even if the price change is only for a short period of time. In the above example the price decrease prior to Christmas 2003 was a result of product being imported from Denmark. When the discounted product was no longer available in early March 2004 prices stopped going down. However the price did not recover for a further 4 months. It is completely possible that the affect of the Danish imports was twice that of what I have shown.

The carcass weight is not an issue that is affected by imposts; however we compete against countries that are exporting to Australia who have carcass weights of up to 85 kg. Using the above calculations our competitiveness is greatly affected if we cannot produce the same size carcass. It is for this reason I support the Australian Pork Ltd long-term strategy that aims to change the way pigs are paid for and increase the weight of pigs.

The implications for our farm business are severe as can be seen on the change of profitability for the last year (ignore the drought year). Currently we have put on hold to finish our planned development. This means not only the loss of 4 employees in the local district but also the \$1.6million in infrastructure this building activity would have generated.

2.2 Contributing factors to farm profitability and competitiveness

As indicated in the previous section of this submission I believe the two things that impact the most on the farm profitability are firstly the affect of imports at below cost prices and the disruption to the market place that this causes. Then secondly the change to lighter weight carcasses affects both our competitiveness as well as our profitability. As like all other businesses within Australia we face increase compliance costs; particularly with the introduction of GST, increased wage costs, increased services costs and increased insurance costs.

Like other businesses we approach these imports with a review of how we do business and see ways in which we can improve the efficiency of our operation. Some of the improvements we have made of the past five years include:

- Use of Ultra sound technology to better predict the pregnancy of sows.
- Use of AI within the farm. We have developed our own semen collection facility to enable the farm to have access to fresh semen at all times. This has led to cheaper breeding costs and improved conception within the breeding herd.
- Entered into agreement with a breeding company to breed our own replacement stock, thus reducing the cost of placement stock as well as giving us the ability to improve the genetics of our herd.
- Installed more automatic feeding systems to reduce the workload on staff and well as improve OH&S.
- Implement the Australian Pork Ltd OH&S manual into our piggery business.
- Introduced and maintained the industry Quality Assurance program.

- Used “all in-all out” grow out systems to reduce impact of disease. Coupled with veterinary advice and the use of vaccines we have been able to reduce the amount of medications used on the farms.
- Commence using large pen bedding based facilities, which reduces infrastructure costs as well as energy costs. We wean into these facilities.
- Maintained and enhanced a buying group that gives us the purchasing power of 20,000 sows across two States. This ensures gaining advantages with our feed supply contracts as well as enabling us to use a highly experienced nutritionalist to formulate our rations.

As an industry we adapt to new technology rapidly to maintain our competitive position. The above list is not exhaustive however it does indicate that as a business we are prepared to take on new technology with the view of improving the product as well as our competitive position.

Up to this point I have discounted the affect of the drought as a seasonal factor that needs to be included into the farm business. As feed costs account for 60% of all costs it is significant and should be addressed. In our business we are part of a buying group that ensures that we use our volume to extract the best possible milling price. We use the same group to purchase raw materials to enter into volume contracts that give us the best possible advantage. However in drought years when domestic grains are in short supply we have had to pay what was equivalent to the price of grain overseas plus the transport and processing costs of bringing in the grain. The domestic price was up to \$330 per tonne for wheat when normally we would expect to purchase wheat for \$180 to \$220 per tonne, given seasonal fluctuations. I therefore endorse the APL’s long-term strategy in relation to feed grains as a reasonable way forward to addressing this problem.

When considering advances made in the industry it must be remembered that the advances are made within the industry dealing with the current known diseases in our country. It is of great concern to the industry that should new diseases establish themselves in Australia then our costs will go up significantly. With this in mind I support the challenge launched by APL against Bio Security Australia. The impact of PMWS on the Australian pig industry would be disastrous.

3. The wider socio-economic impacts of your business

In the period of time we have operated our business we have taken a business that initially had 4 employees to ten at present. Our employees come from the local communities and in a number of cases started work in the piggery as a result of job start programs or such similar incentives. This indicates that these people have had difficulty finding employment at the time but have been gainfully employed learning new skills for many years.

It is worth noting that in small rural communities the opportunity for jobs can be quite limited. Piggeries out of necessity are often in remote areas and as such supply real employment opportunities in areas that would otherwise be limited.

In the past two years we have down sized our staff while increasing the number of pigs that we have in production. Consequently the hours of work carried out by owners and managers has increased dramatically. From my personal point of view where two years ago I was able to have sufficient time to exercise two or three nights a week I now find it increasingly difficult to find the time for these type of activities. The affect on rural peoples' health as a result of these changes in circumstances will be seen in the future as people have insufficient time to lead healthy lifestyles.

Of concern also as margins are squeezed in a business is the inclination to reduce the amount of money spent on maintenance. In our operation we halved our maintenance development crew to one person. The impact on those farms that have been unable to maintain their plants adequately will be felt in both worker and animal safety.

As I consider the impact of down turns within our business I reflect on our local electrician who has laid off one of his workers (25% of the workforce). He has found that although there is quite a lot of work the number of people that are unable to pay their bills has doubled. The pig industry is an extensive user of a variety of trades within small communities. Any downturn in their business is passed on to allied trades very rapidly. Typically we use electricians, engineering works, motor mechanics, freight contractors, veterinarians and hardware suppliers. Rural communities hold together on the basis of our reliance on one another. When one sector of that community suffers it is quickly passed on to the rest of the community.

4. Industry outlook and enhancing competitiveness

In looking forward to the shape of our industry in the future I would like to re emphasise key aspects of the Australian Pork Ltd strategic plan:

- We need to change the way that pig meat is purchased so that it reflects the real value of the carcass and sends the right signals to the producer.
- Emphasis has to be given to the weight of the carcass produced so as new cuts of meat can be developed we are producing a similar weight carcass as to our North American competitors.
- Our industry needs to actively involve itself in the development of case ready and boxed product that will allow the use of larger animals and offer eating solutions to the customers.
- Our customers need to be able to readily recognise Australian product.

It is with these points in mind that I support the thrust of the APL strategic plan for the industry. This includes ensuring that the industry is not disrupted in this development phase by the predatory pricing from other countries.

Governments should have a direct role to ensure that when product is landed in Australia that it is fairly priced and that it does not endanger the health status of the local pig herd.

5. Conclusion

A key issue for pig producers is the short-term outlook of the industry and its future sustainability given the recent and current difficult economic circumstances. Falling import prices and increasing import volumes when combined with market distortion, structural inefficiencies in the supply chain and the composition of the pork market, have effectively capped domestic prices and limit pig producers ability to recover costs. As the processed market and the fresh market are inextricably linked, any artificial downward pressure placed on pork product supplied into the processed sector in turn has a similar price lowering effect on the Australian fresh pork sector.

The difficult financial circumstances facing pig producers and the supply chain suggest that more substantial changes within the industry are needed: In particular further structural change for all sectors of the Australian pork industry supply chain. But this cannot occur in isolation and will need government assistance; including appropriate trade measures such as a safeguard action. If the Australian pork industry is to substantially improve its global competitive position it must be given the breathing space to enable adjustment to build the necessary competitive momentum to realign the supply chain and compete effectively with imports. At the very least the Australian Government should agree to carry out a safeguard investigation.

I would be happy to discuss any matters raised in my submission with the Commission and can be contacted on (ph) 03-54877262 or 0407508122 or email ackingma@bigpond.com . I am also interested in attending and/or presenting to the Commission in the public hearings scheduled for December 2004. My preference is to attend a meeting in Melbourne.

Yours sincerely

Aeger Kingma