

Ridley AgriProducts Pty.Ltd

Submission to Australian Pigmeat Industry Productivity  
Commission Draft Report.

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### Background on Ridley AgriProducts

Ridley Corporation is a 100% Australian-owned public company, and is a global producer of animal feed and salt, with a sales turnover of over \$1b. Our business is conducted through three operating divisions, Ridley AgriProducts, Cheetham Salt and Ridley Inc in North America. Ridley AgriProducts (RAP) is the largest stockfeed producer in Australia with a number of major brands and twenty-two manufacturing sites across the country, as shown in Figure 1 below:

Figure 1: Location of RAP sites



The principal activities of the Ridley group are stockfeed manufacturing and marketing; production of crude salt, salt refining and marketing; manufacturing of animal health products, manufacturing of consumer pet food products, and provision of rural products and services.

The company has achieved its business success and high standing in its markets through a combination of factors. In Australia, Ridley AgriProducts employs 560 people nationally.

In Australia, the business has 22 manufacturing plants, producing 25-30% of the total national compound feed production of approximately 4-5 million tonnes. Ridley AgriProducts Pty Ltd, supplies animal feed to all Australian animal industries including poultry, pig, dairy & beef.

A large number of manufacturing sites across Australia provide Ridley AgriProducts with ready access to the Australia pig feed markets and sources for raw material. These factors ensure that pig feed customers are offered cost-effective products specific to their individual requirements. Manufacturing sites are as follows:

**Queensland**

Atherton, Clifton, Dalby, Wondai, Rockhampton, Toowoomba, Wacol and Narangba (Aquaculture Feeds)

**New South Wales**

Tamworth, Taree

**South Australia**

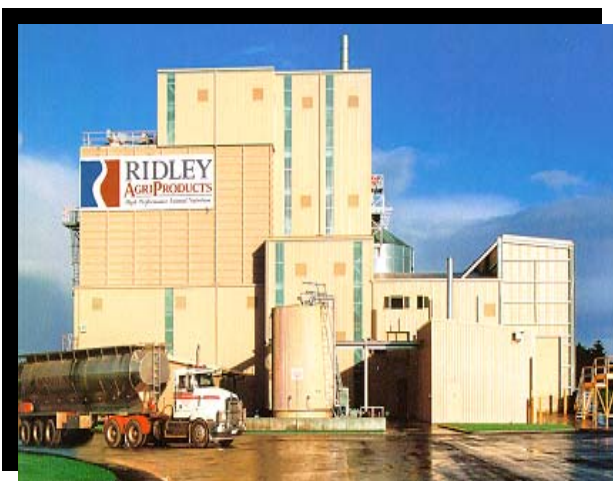
Murray Bridge, Wasleys

**Victoria**

Bendigo, Cohuna, Corowa, Dandenong, Maffra, Mooroopna, Pakenham, St Arnaud, Terang

**Western Australia**

Northam



Photograph of one of the Ridley stockfeed mills in Victoria (Terang)

## Ridley AgriProducts Involvement with the Australia Pig Industry

Ridley AgriProducts produces approximately 400,000 t/yr of pig feed, which on industry averages represents the equivalent of about 77,000 sows. Based on the data in Table 2.1 of the Draft Report and allowing for the sows owned by vertically integrated producers, Ridley therefore feeds approximately 33% of the available pigs within the areas serviced by our mills and is accordingly a significant player in the pork production chain. Despite the restructuring in the pig industry in recent times, Ridley pig tonnes have fallen markedly for two reasons. Firstly, the larger commercial producers, who have remained in the industry albeit at lower returns, dominate our customer base. Secondly, margins have been eroded due to the competitive activity of stock feed and over-capacity in some regions. RAP does feed many smaller producers and like the home mixers, many of these producers have stopped producing pork so our customer numbers have fallen. Exports markets require larger pigs than domestic markets and therefore with the shift to smaller pigs there has also been a corresponding drop in demand for pig feed across the industry.

As has been identified in the Draft Report, profitability of pig producers has been extremely volatile in recent years and the factors influencing this have been generally identified. Feed cost is the most significant of the production costs and RAP has been following this volatility by comparing expected costs of production with typical return on investment (exclusive of interest and taxes) as shown in Figure 2.

Figure 2: Costs of Production vs ROI for different size pig operations

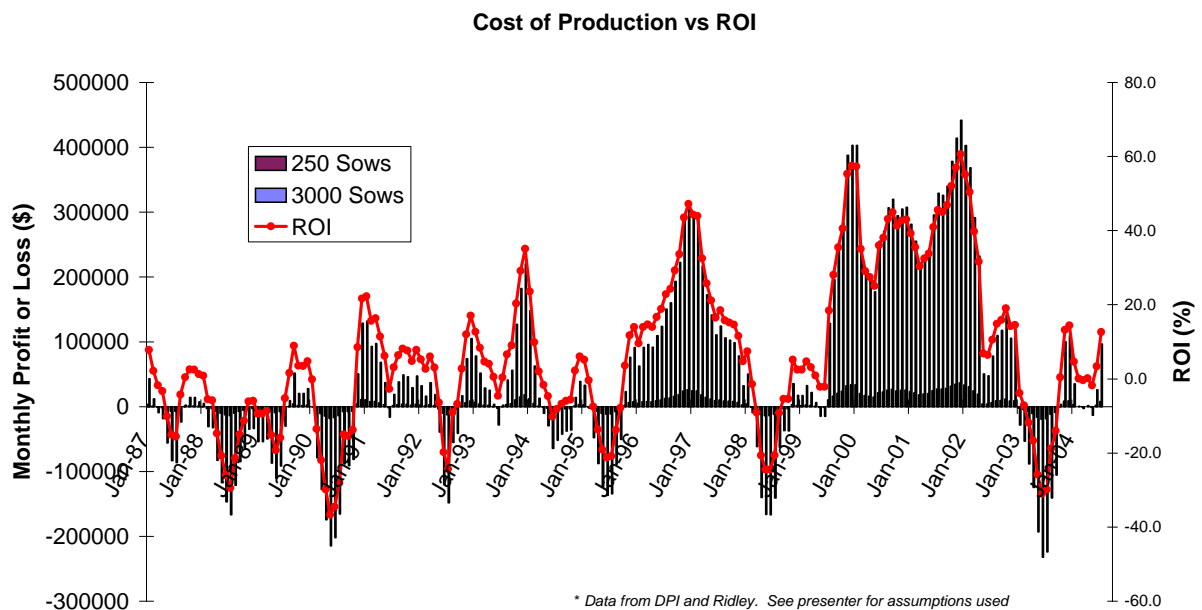


Figure 2 quite clearly highlights the massive ROI swings pig producers are facing.

The industry knows, and the Draft Report identifies, that improvement in Feed Conversion Ratios (FCR) and animal performance are needed to improve the profitability of pork production. With the uncertainty in returns and volatility associated with the returns however, investment in new equipment and repair and maintenance of existing equipment is relatively low and consequently the improvements in performance that can be achieved with our existing knowledge are not being realised. The outcomes from the successful bid for the Pork CRC will make significant improvements in animal performance, however these outcomes are some years away.

While the Draft Report also identifies exports as a growth opportunity there is often a long lead-time and practical limitations in producing products suitable for particular markets. A classic example was the requirement of one processor recently for only castrated males or females. Many producers altered their production system to meet this requirement but within a couple of months market conditions had changed and a different specification was required overnight. Pigs take 5-6 months to reach market weight and if a different slaughter weight and or backfat percentage is required it may be up to two years before a producer is capable of meeting the new standards through combinations of genetics, husbandry and nutrition. In some cases market specifications are so tight and penalties for not meeting the specification so severe that many producers can't meet the market needs. Until Australian pig producers are paid on a lean meat yield basis, as is the case in many other countries, the current payment system of weight and P2 will be a major inhibitor of many of the nutrition and genetic advantages available to pig producers.

As a nutrition provider, RAP is acutely aware of raw material costs and the external factors that influence these. The Draft report appropriately identifies many of the factors that have contributed to the high feed costs experienced in 2003 such as single desk marketing of grains and quarantine issues with imported grains. Future issues such as grain for ethanol production are also major concerns for our industry.

In the report by Professor Clair Nixon included in the Draft Report, Prof Nixon identifies that 'if Australia wants to be a big pig exporter, it needs to look closely at its grain program – it is all about low cost feed.' This view is well understood by RAP and pig producers and is why RAP and industry have been involved in initiatives such as the Premium Grain for Livestock Program (now in its 7th year) and the Pork CRC as well as conducting our own Research and Development into methods of improving feed utilisation in conjunction with our Ridley colleagues in Nth America. As a result of these programs a dedicated feed grain industry and rapid tools to assess feed grain quality are gradually emerging, however until Australia has rapid and cost effective processes for moving the raw materials from where they are produced to where they are needed such as ships from WA to the eastern states and standardised rail gauges between NSW and Qld, freight will continue to be a high and prohibitive cost component of effective raw material utilisation.

The Draft Report makes a few references to the different feeding systems between North America and Australia and how these differences can largely explain why Australian producers have such large costs of production. There appears to be some misunderstandings and misconceptions in the Draft Report with this concept and if allowed to perpetuate will not allow the Commissioner to make appropriate recommendations from the report. While corn and soy can be considered feed grains, they are very high energy ingredients and when pigs in Australia are fed US diets the pigs are very fat and would not meet any of the profitable grades (hence the call for lean meat payment schedules and value adding of pork products). Furthermore, pigs fed corn based diets have soft, yellow fat which is undesirable by Australian consumers. In Box 1 of the Draft Report (Overview section, pg XXI) reference is also made to corn having a higher feed conversion ratio than that of Australian grains. Depending on the measurements used this may be the case but the comment may distort the argument as the real value of a grain on animal performance is a combination of FCR, rate of gain and final carcass composition and on that basis many of the Australian grains would be superior to corn. There is no doubt still that a dedicated feed grain industry in Australia would significantly improve the profitability of the animal industries.