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22th November, 2007

Ms. Andrea Coulter,
Pigmeat Safeguards Inquiry,
Productivity Commission
Locked Bag 2 Collins Street East,
Melbourne Vic. 8003

Dear Madam,

Re: Submission to the Productivity Commission: Safeguards Inquiry into the Import of Pig meat

I am writing to inform you of the impact that pig meat imports have on our business. Imports depress pig prices which put extreme pressure on our piggery to remain profitable. We are a family owned business and have been involved in the pig production industry since 1967. We have gradually increased our piggery to the point where we now have a sow herd of 470 sows and approximately 4000 growing stock. Our average weekly turnover of baconers is 130.

Due to the dramatic fluctuations in pig prices in recent years, we made the decision to enter into an exclusive contract with Coles to help stabilise our income and increase the chances of maintaining profitability. Nevertheless, Coles prices are still determined by the wider market prices and are not a guarantee for meeting production costs.

We strive to produce high quality pig meat that meets the specifications of consumers, Primo and Quality Assurance criteria. Consequently, we have undertaken considerable expenditure on ensuring that our staff training, pig housing, infrastructure, pig nutrition, and pig health levels meet best practice standards.

Due to the pressure that pig meat imports put on pig prices, we have also had to spend considerable amounts of money on increasing productivity. We have invested heavily in new technology, staff training, and expert advice to help maximise conception levels and to minimise illness and death amongst our pigs. We have also increased the size of our operation by over 50% since 2002 whilst maintaining the same level of staffing.

We grow our own grain which is used for pig feed which in turn helps reduce production cost for the piggery. Nevertheless, poor pig prices in recent years has led to a need for the cropping side of the business to financially support the piggery to keep it running. Despite increases in the efficiency and size of our piggery operation, there have been many periods since 2002 when our piggery has failed to make a profit.

Our business has had to borrow substantial amounts of money to increase the size and efficiency of the piggery, and periods of unprofitability puts enormous financial pressure on us. As the piggery infrastructure is not easily transferable to another industry, we continue in the pig industry to try and at least recoup costs.

We have seen many piggeries in South Australia shut down due to difficulty in sustaining profitability in the pig industry. If we were to decide to "cut our losses" and get out of pig production, it would be very detrimental to the local economy. We employ 8 staff who carry out work for the piggery and they in turn spend their money in the local community. Moreover, our piggery supports local businesses and service providers. We spend an average of $77,000 per month on piggery related expenses and at least 75% of this is spent in local businesses.

We sincerely believe that the import of pig meat from overseas has had a severe detrimental effect on the Australian pig industry and there is a strong need for provisional safeguard measures. If pig prices do not improve there will be irreparable damage to our piggery and others like us despite our highly efficient operations.

If you have any questions or matters you would like to discuss, please do not hesitate to contact me on (08) 88 214 033 or on paterson11@bigpond.com.

Yours sincerely,

N D Paterson

Neil Paterson
Senior Partner
NT & RM Paterson

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1. Farming Enterprise/Company Background

- We operate a business called NT & RM Paterson and are involved with Grain growing and pig production
- We are involved with food production, through the process of piglet production through artificial insemination to the growing out of stock for market.
  - o We are producers, and our piggery deals with mating sows and growing out of heavy baconers for the market
  - o As such our operation is vertically integrated from growing feed, to the delivery of pigs to the abattoir
- Our operation is based in South Australia.
- We have been involved in this process since 1967.
- The business is a family partnership, and we employ a piggery manager and 5 F.T.E. staff to oversee the day to day processes involved with pig production.

2. Farming Enterprise/Company Structure, Production and Markets

a. Production

- We have an active breeding herd of some 470 sows, and turn over (or cull) some 21 sows per month. This turn over is managed on the basis of breeding success We probably have some 50 sows that are not included in the active herd to enable this turn over to occur with the least interruption to productivity.
- Our average total number of growing stock on your farm would total about 4000. this is an increase of over 100 percent from 2002
- Our average weekly turnoff of pigs (excluding culled sows) would be about 130. This is an increase of about 90 percent from 2002, and the figure varies from between 99 pigs per week to a maximum of about 150 pigs per week over this last year. Production should go to 170 sale pigs per week this year.
- Our principal market has been Coles who deal in both Fresh and Processed meat. 100% of our output currently goes to this source.
- Our culled for age stock are sold through the Dublin Livestock Market.

b. Marketing Strategies

- Due to the dramatic fluctuation in pig prices in recent years we made the decision to enter into an exclusive contract with Coles to help stabilize our income. Never the less Coles prices are still determined by market factors.
- We tailor our production to Cole's specifications which are driven by consumer preferences. E.g.
  - o Weight range
  - o Use of eco shelters
  - o Conforming to QA specifications and standards

    - Carefully developed diets with the aid of nutritionists
    - The use of specific pig breeds
- We have had to pay much more attention to the back fat levels in pigs destined for market, and have had increased attention to detail when it comes to neutering male pigs destined for market. This has affected our investment decisions in relation to growing out our pigs at a contract rate. As a consequence, costly investment has been needed to upgrade facilities here. Costs of production have increased markedly with the drought and the income stream has not kept pace with the expenses outlaid. The revenue therefore received for the pigs we sell is less with each expense we are forced to endure.
- It is very difficult to value add to a product when you are on the lower level of the marketing ladder, other than to ensure quality control within all our production systems. In order to achieve this we have over the last five years
    - incorporated weighing machines in order ensure we meet weight requirements of our contracted pigs,
    - purchased suitable feed crushing mills that provide an exact formula for each stage of production of the pigs
    - Built eco shelters to ensure that the production process can be controlled as per contract expectations. These have been built to stringent animal health standards
    - incorporated an ongoing purchase strategy for breeding stock and semen
    - Ensured that staff are trained and that this training is reinforced as a regular procedure to improve conception rates.
    - and to ensure a high quality production we employ the services of a Vet to advise on any problems found in the piggery, as well as to run pregnancy tests on mated sows to ensure that pig production is maximized, and the services of a nutritionist to ensure that pig growth targets are met
- To further value add to our product would require investment on a scale we could not achieve.
- We are involved with Top Pork, and attend seminars regularly, and we send staff along to appropriate training sessions run by the peak industry body to ensure that our quality assurance commitment is met.

d. Employment and Regional Business Effects

- We currently employ 9 people in our farm enterprise, 8 of whom are actively employed attending to piggery work. One of these employees is a part time employee, while the others are all employed on a casual basis. Our QA Systems ensures that employees are encouraged to increase their skill levels, and our employees are encouraged to attend industry based training sessions where ever possible. The business pays for this training.
- This has not varied over the last five years because we value the skills of our trained employees. This has been an ongoing commitment of the business over the last five or more years. The level of employment has increased in number by 2 since 2002. Increases in the cost of feed however, have led to the need to be more efficient in our work and as such the hours worked by each employee has

decreased slightly. This has assisted in ensuring we can operate at a profit, however this has placed extra strain on our piggery manager who has to maintain piggery services at minimal cost.

- Our regional community relies on our business to provide employment. Employees in turn spend their income locally. We also have a policy of employing local businesses to undertake contract work on the property and we also try where ever possible to purchase locally. We spend an average of $77,000 per month on piggery related expenses, and of this at least 75% is spent with local businesses.

3. On Farm Profitability

a. Prices

Table 1 Comparative Prices 2002 - 07

Type	i) Financial year ending June 2002	ii) Financial year ending June 2006	iii) Financial year ending June 2007	iv) Current pig price (Oct 07)
a) $ / kg baconer (HSCW) Trim 1	$2.34/kg	$2.38 / kg	$2.40/kg	$2.35/kg
b) $ / kg porker (HSCW) Trim 1	N/A	N/A	N/A	N/A
c) $ per cull sows (HSCW) Sold Live	$175 per sow	$180 per sow	$185 per sow	$180 per sow

For the years 2002 through 2006 the farm income has been used in order to maintain the piggery in the hope that the piggery operation through increased scale would become more profitable. This has caused greater stress as the drought caused lower than anticipated crops last year, and we were forced to purchase feed grain for the piggery at a vastly increased cost to the operation. Normally the property is able to produce most of the required grain for the piggery. As such the combined output of the farm usually can support a profitable enterprise

We grow our own grain which is used for pig feed which in turn helps to reduce production costs. Never the less, poor pig prices in recent years have led to the need for the cropping side of the business to financially support the piggery to keep it running. We have seen many piggeries in South Australia shut down due to the difficulty in sustaining profitability in the pig industry. Despite increases in efficiency and size of our operation there have been many periods since 2002 when our piggery has failed to make a profit.

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b. **Operating Expenses**
i) Production and other costs

- It is reasonable to expect that we operate in an environment where some years we have a loss on the understanding that occasionally we have a very good year, and that this good year makes up for previous losses. It is however hard when prices increase unreasonably so that our margins are to say the least minimal all of the time. We have had to expand the piggery substantially in order to ensure that we will come out in profit at some stage, the cost of this was substantial. Lately the cost of this has been harder and harder to justify?
- Investment with-in this business is assessed on a quarterly basis. We have had to rely on Bank financing as a result of the drought. Cash flow is tight at all times, and one is at time found delaying payments in order to juggle enough funds to operate.
- We at this end of the business tend to be price takers rather than price setters. We have to accept the price the market sets as being just compensation for our efforts. Therefore we are unable to recover increases in our production costs. All we can do is to try and streamline our activities and increase productivity to the best of our abilities, as well as increase the scope of our operations hoping that the size scale will assist in increasing profitability.
- We are constantly monitoring our herd, and have retained the services of nutritionists and veterinarians in order to maximize our efficiency. We utilize the

services of the industry peak body and their training services in order to make sure that training is upgraded and reinforced within our workforce. Nutritionists have assisted in improving feed conversion ratios, and ensuring that back fat levels are to an industry norm. Sow pregnancy rates have been improved, and on farm practices being under constant review as a consequence of our QA practices.

- Comparing 2002 to 2007, in order to try and improve profitability we have had to take the following actions:
    - Up scaling and halting financial investment in our farming enterprise in order that economies of scale can reduce our unit costs;
    - Increased the population of the farm enterprise;
    - Sold only those animals that meet the marketability criteria, or those that are to be culled as they do not meet our stringent criteria for breeding success;
    - Increasing our culling criteria so that we can cull sows as they show signs of infertility and also not meeting our breeding criteria.

ii) Feed and Grain Costs

The following table for the last four years summarizes the average cost of feed mixes for the last four years

Table 3 Cost comparisons of prepared feed mixes over 4 years

	Oct 2006 - 07	Oct 2005 - 06	Oct 2004 – 05	Oct 2003 - 04
Piglet Mix	$2302.00	$932.50	$1085.00	$672.00
Weaner Mix	$407.00	$361.00	$362.00	$437.00

It can be seen that the costs of prepared feed mixes have fluctuated considerably as a consequence of seasonal variation. The cost of piglet mix in particular has increased considerably as a consequence of the drought extension this year.

Our Grower Rations are harder to calculate as a consequence of the fact that we produce a good deal of the grain component of the feed that we use on farm. As such there is a deal of vertical integration. Using market valuations for grain prices, the costs of grain component for our grower mix can be calculated to about $105.50 per tonne for the current financial year. This is an increase of about 20% on last year as a direct result of the drought. We mix our grower feed on site, in order to minimize feed costs, and our costs of sourcing alternative feed options have been high as a consequence of the drought.

Our forward projections of feed costs are expected to be high as a consequence of the demand for grain remaining high. This will happen as a consequence of the reduction in the size of the northern hemispheres grain stock piles and the increased demand of grain stock for bio fuel production. Our drought is already being blamed for an increase in price for grain globally of over 30 percent. A consequence of higher demand and lower stock piles will not see a reduction in the costs of grain we are expecting an increase of over 30 percent in these costs.

The combined price of fodder grain and hay make up about a third of the input costs of raising the pigs for market. As such the costs of feed, impact highly on profitability. What we do know is that the effects of drought have a high impact. The effects of the globalization of the worlds grain market has a severe impact on our business, and that the further impact of imports are having a compounding, and possibility synergistic impact, with pig producers now considering leaving the market. It has been suggested by some, that farmers in this country are loosing as much as $50.00 for each pig that reaches the supermarket shelves.

c. Capital Requirements

- In 2002 we invested $439,000 capital inputs in order to produce pigs for the market. This did not include the costs associated with the employment of personnel in order to oversee the production. The 2007 financial year has seen these input costs lift to almost $650,000. During this time we have undertaken radical restructuring of the enterprise to ensure that we remain competitive. We have lifted our output by over 100 percent but our returns do not seem to be lifting by a commensurate amount.
- The costs that have already been incurred and which cannot be recovered to any significant degree include the building structures and machinery investments incurred in order to ensure that productivity is lifted, and we can maintain our piggery in a state of Worlds Leading Practice. Such investment is onsite and can not be transferred. The Eco Shelters are permanent structures and can not be shifted.

  The finance for the restructuring that has been undertaken has come from two primary sources. The first of these has been the investment of "on farm capital" in order to reduce the costs of the enterprise. For example, most of the grain used to feed the pigs comes from the farm and would have otherwise been sold to provide farm income. This works well in seasons where we can retrieve a crop from the land. Years such as last year saw us having to buy three months of feed from other sources as in consequence of drought we were only able to grow enough feed for the first nine months of the year. The other primary source of income has been the banks who have loaned us the capital to upsize the scope of the piggery in order to try and capitalize on whatever economies of scale we can find. We have increased the size of the piggery by over 50% in order to try to remain a viable entity. This infrastructure is not adaptable to other farming activities.

c. Risk Management

- We determine our grain needs year by year, and any shortfall that results from our own production is contracted out. We are limited in bargaining power as a consequence of the globalization of the grain market; however there is limited scope for us to minimize the costs by a judicious purchasing policy. We are able mainly to be able to utilize fluctuating seasonal prices to minimize costs.

- The major risk management measure is our own production of grain for the piggery.
- Our exposure to market volatility factors have in the main been minimized with our contractual arrangements with Coles, however they are exposed to market volatility and this impacts highly on the prices paid for our product.

d. Profitability

- We undertook an analysis of the industry and decided that given the projections then available, we could with judicious investment increase the size of the operation here with reasonable expectation of running a profitable piggery, and recouping costs.
- It is interesting that there are currently foreign goods for sale on supermarket shelves which undercut prices for locally produced goods. Since 2002 this disparity has increased. It can be seen from this that imports have the effect of depressing pig prices and impeding not only our ability to recover the costs of our production but also an adequate return on the initial investment to service debt.
- There is an imminent threat of serious injury to our industry from imports as pig producers leave the industry, and this will have long term, irreparable consequences to the future of this industry unless a provisional safeguard action is taken immediately.
- One of the primary reasons for staying in this industry is that our business has invested hundreds of thousands of dollars on infrastructure (which is not transferable to other industries) and hence we continue in this industry to try and recoup these costs

4. Impact of Imports: Current serious damage and the threat of further serious injury

- Imports impact on our company in terms of:
  - Preventing an increase in our carcass price. It can be seen from Table 1 that the prices that we have received per kilogram for our carcasses have remained static over the period 2002 to 2007. We perceive that this is primarily due to market forces.
  - We have not had to downsize our company's operations, however in order to remain viable we have undertaken a restructuring process which has increased production substantially (over 100 percent) with further gains in productivity, and we are still struggling in order to remain viable.
  - Our facilities are at 100 percent usage rate, and we can not increase production further without a massive injection of funds. Given the current situation we are not prepared to inject further capital until we gain some return on the money already invested.

  - Any problems that we have with bank financing come from a number of sources, and our limited return on the piggery is just one more pressure in respect of this.
  - The cost of exiting the industry is such that it would place at peril all aspects of our business. We would have to close down the farm entire, not just the piggery. How do you place a value of the livelihood of an entire family (3 Generations), as well as the unemployment that would be felt through the community as the workers are retrenched?
- If imports had stayed at 2002 levels, our projections showed a good return on investment over 5 years. We would be well on our way to recouping our investment given the strategies put in place to improve our productivity.
- If we had been able to factor in the increase that has been experienced in imports, levels as they stood at the end of 2006 I doubt very much whether we would have invested in this venture further given the static returns per Kilogram that we are experiencing for the product, combined with the upward pressure of costs that has now become evident through the globalization of the worlds grain market.
- If imports continue at current volumes or increase beyond this, the effect on this business will be to threaten seriously its viability. If some return on investment does not happen soon I will have to consider closing the operation. This will not only threaten the viability of the piggery but of the whole farming enterprise.
- The management plans that we have in place to manage cost are already in place. We can not compete without a contractual advantage, we have improved productivity in ways never before thought of, and we can not see even with professional assistance where further measures can assist us in reducing costs, as we are subject to global pressures.
- If we were to shut down or exit the industry now, would not be able to reenter and restart your business again in late 2008 or in 2009. The farm would have been sold, and our way of life would no longer exist for us. There is no way that one can place a value on this; however we would still remain in debt to the bank for property we no longer own.

5. Conclusion

Our business suffers greatly from imports both financially and in terms of our market share. This impact is primarily felt in the return on investment we receive with respect to the low prices paid for the pigs we sell

We are likely to sustain losses of in excess of $100,000 per year. In the next twelve months, if import levels are maintained or continue to increase, and provisional safeguards are not applied, we will have to consider the viability of our entire farming enterprise. This will include the closure of our piggery, and the sale of farm assets, as well as the destruction of the livelihood for our employees

Attempting to re-enter the industry after exiting involves significant cost. We would still be the bearers of heavy debt, and it is unlikely that we would be able to afford either the financial or the psychological or physical stressors that this would entail

Our city and region rely on our business to provide 8 jobs in the Bute region. Our piggery contributes over $58,000 per month to our local and regional businesses and $77,000 per Month to our state economy. Further cut backs in our business will in turn have an adverse and accumulative affect on local businesses and the community in general.

NT & RM Patersons strongly believes that the rationale for a provisional safeguard measures is warranted and should be applied immediately. Imports are clearly affecting our livelihood and future sustainability. It is imports that are depressing pig prices and impeding our ability to recover our costs of production. As we have clearly shown in our submission, there is an imminent threat of further serious injury from imports which will have long term, irreparable consequences to the future of our business and to the pig industry; unless a provisional safeguard action is taken immediately.