SOUTH AUSTRALIAN
FARMERS FEDERATION

23 November 2007

Andrea Coulter
Pigmeat Safeguards Inquiry
Productivity Commission
LB2 Collins St East
Melbourne Vic 8003

Via Email: pigmeatsafeguards@pc.gov.au

Dear Commissioner

Submission to the Productivity Commission: Safeguards Inquiry into the Import of Pigmeat

The South Australian Farmers' Federation (SAFF) appreciates the opportunity to comment on the review of the Productivity Commission's Safeguards Inquiry into the Import of Pigmeat.

SAFF is the principal farmer representative body in this state, representing a diverse range of farmers from various commodity groups. SAFF is also a member of the National Farmers Federation (NFF).

As outlined below, the South Australian industry has been badly injured by the rise in imports over the past decade and in particular the surge in imports in past twelve months has been devastating. Three case studies are included to demonstrate this point. Accordingly, a tariff must be implemented immediately to assist the industry.

We again reiterate our appreciation for having the opportunity to comment on this very important issue. SAFF would be happy to provide any additional comment that might be required in order to assist the decision making process.

If you have any questions arising from this submission please do not hesitate to contact Mr Graham Pratt at the Federation on 08 8100 8712 or gpratt@saff.com.au.

Yours sincerely

Mr Butch Moses

Chair – Commercial Pork Section

South Australia Farmers' Federation

Submission by the South Australian Farmers' Federation (SAFF)

in response to

The Safeguards Inquiry into the Import of Pigmeat

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1. Introduction

1.1 South Australian Farmers Federation

The South Australian Farmers Federation (SAFF) is the principal farmer organisation in South Australia with a proud history of representation and support for farmers dating back more than 100 years. It represents industries which have helped to build South Australia, and will continue to play a key role in its future.

SAFF's aim is to assist South Australian farmers achieve sustainable profitability by providing representation, leadership and services to members, and foster a unified voice to promote farming interests.

SAFF is a member of the National Farmers Federation (NFF), and through its various commodity sections, are members of peak commodity councils representing the grains and livestock industries.

Agriculture and horticulture contribute more than $5 billion annually to Gross State Production and account for around 55% of the State's export revenue. The Centre for International Economics has forecast that over the next decade these industries have the potential to contribute an additional $1.0 billion to the State economy.

1.2 South Australian Pork Industry Overview

South Australia is by most international measures highly suited to pork production. Its climate, topography, availability of affordable land and centralised location provide the industry with some distinct advantages.

Furthermore, the local industry is progressive; it is well structured having a State Ministerial Pig Industry Advisory Group, strong local representation through SAFF and importantly a robust strategic plan through to 2010.

Other strengths include:

- Access to a relatively secure and consistent local feed grain market;
- Australia's two newest export-accredited processing plants;
- Ideally located to supply both the East and West Coast markets;

- Ability service key Asian export markets either via a modern international airport or the Adelaide – Darwin railway line; and
- Software that can analyse the whole state's resource suitability for pork production.

Accordingly, the South Australian pork industry is proud of its achievement to date.

1.3 South Australian Pork Industry

South Australia has approximately 55,000 sows and more than 500 pig farmers who produced 1,047,000 pigs to the year ended 30 June 2007 (Australian Pork Ltd, 2007) which is 19.5 percent of Australia's pig production. In 2005-2006 the farm gate value for pigs in South Australia was estimated to be $163 million (South Australian Food Centre 2006).

South Australia as two[1] world class export-accredited abattoirs strategically located adjacent the state's major pig producing regions. Big River Pork is located at Murray Bridge and Primo at Port Wakefield. 78,010 tonnes (carcase weight) was processed by these two plants for the year ended 30 June 2007 (Australian Pork Ltd, 2007). The wholesale value of this production is estimated to be around $260 million.

Big River Pork currently has an average throughput of 22,500 pigs per week. Total staff employed is 267, plus an additional 38 staff employed in associated transport companies. Their annual wage bill is $18 million and they spend over $3 million per year spent on consumables with local businesses in Murray Bridge (Big River Pork, 2007).

The regional importance of Primo's abattoir at Port Wakefield is just as high. It processes over 500,000 pigs per annum and employs at total of 305 staff. Primo's annual wage bill is approximately $12 million to the local economy and they spent over $250,000 on consumables in the local district annually (Primo Quality Smallgoods, 2007).

The South Australian pork industry contributes $573 million to South Australia's gross food revenue. This equates to 21 percent of the total meat industry gross food revenue of $2.7 billion (South Australian Food Centre 2006). The Centre estimates that the net

[1] *Primo's plant at Port Wakefield is currently being rebuilt following a fire in February 2007. For the purposes of this submission it is assumed to be operational.*

food revenue for the state's pork industry is $540 million, thus indicating that $33 million worth of pigmeat was imported into the state from interstate and overseas in 2006.

1.4 Markets for South Australian Pigmeat

The South Australian Food Centre (2006) reports that in 2006, the South Australian pork industry exported 4,900 tonnes of pigmeat overseas for $13 million and a further 47,500 tonnes of pigmeat was sold interstate for $158 million. In addition, the Centre estimated that 34,200 tonnes of pig meat was consumed in South Australia during 2005-06.

In terms of local sales, the Centre reported that South Australians consumed 30,800 tonnes of various forms of pigmeat valued at $323 million. A further 3,400 tonnes of pigmeat was consumed through hospitality and service outlets to a value of $80 million.

1.6 South Australian Pork Industry Strategic Objectives

As previously mentioned the South Australian industry is progressive. The 2010 strategic Plan has four key strategies in place to help achieve its vision of growing the industry in a sustainable manner. These strategies are:

1. Growing value by achieving tight integration from producer to consumer, improved transparency in market signals and growth in volume and unit value of pork;
2. Building capacity by building on existing strengths and advantages and improving competiveness within Australia;
3. Enhancing integration in order to achieve economic, social and environmental benefits; and
4. Improving community relationships by enhancing the community's understanding and recognition of the value of the local industry to the state (Primary Industries and Resources SA, 2005).

Thus not only is the South Australian pork industry strategically important to the state's economy, its comparative advantages in pig production and pork processing are key elements of Australia's entire industry.

2. Discussion Paper and Request for Comments

In the discussion paper there are a series of questions that the inquiry has raised in seeking comment from interested stakeholders on the review. This section aims to address the key questions that have been identified within the discussion paper.

2.1 Have Imports Increased?

Pork imports have increased in both absolute and relative terms as shown in Figure 1, and SAFF is deeply concerned by the alarming trend that is evident. As can be seen in Table 1, there has been a steady increase in the volume of imported pork over the past five years from 84,672 tonnes (cwe) to 190,311 tonnes (cwe) for the 2006/2007 year. Most frightening is the 50 percent increase in volume in the twelve months from July 2006 to June 2007!

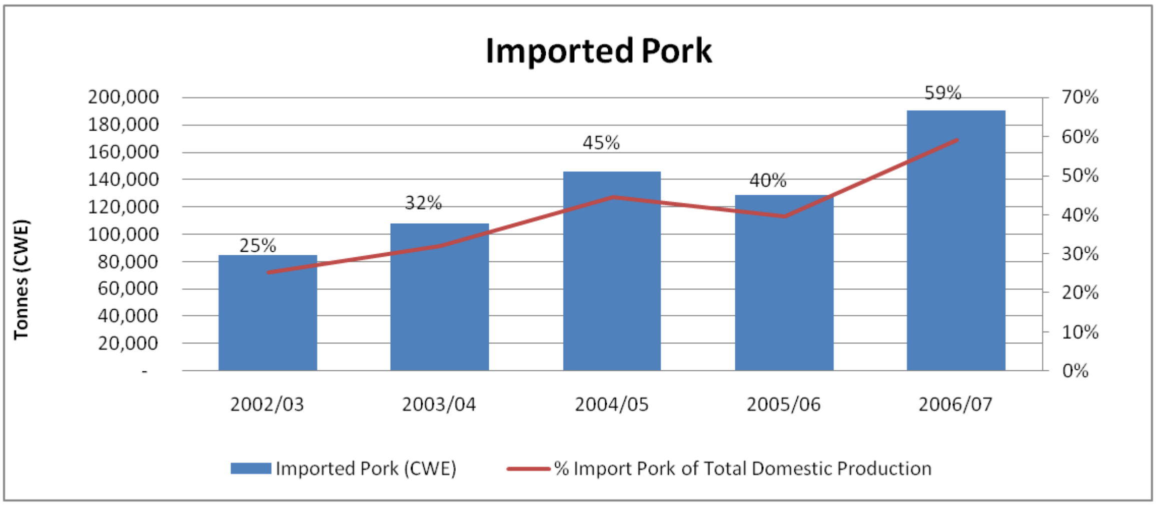


Figure 1: Import volumes and as proportion of domestic production

Furthermore, import volumes relative to domestic production follow the same disturbing trend with import volumes now equating to nearly 60 percent of Australia's total production for the year ended 30 June 2007. This is up from 25 Percent in 2002/2003.

2.2 Unforeseen Circumstances

This dramatic and sudden increase in imported pigmeat over the past five years and in particular during the past twelve months is certainly unprecedented and has displaced local pigmeat causing significant hardship on the local industry. SAFF firmly believes that the increase in both import volumes and the number of countries who import into Australia is a result of the loosening of quarantine measures. The US entering the marketplace in 2005, after the signing of the Free Trade Agreement clearly demonstrates this key point.

It is reasonable to conclude that Australian trade negotiators could not have foreseen that quarantine measures would be lessened when they traded away tariffs in the 1990's. Nor could they have foreseen the rapid rise in import volumes and resulting damaged caused.

2.3 Defining the Industry

It is pleasing that the 1998 inquiry determined that Australian pork producers' output (pigs) is 'like' and 'directly competitive' with imports of frozen, boned pigmeat. SAFF does not believe that the decision made by the WTO Appellate Body that considered the imposition of safeguard measures by the United States against imports of Australian lamb affects this inquiry.

The Australian pork industry is highly integrated with 90 percent of pigs sold over the hook and ownership only changing hands when the carcase is weighed and assessed, and a market value determined. It is too hard to separate the primary processor from the producer, whereas this is much easier in the US lamb industry because is not integrated to anything like the same extent.

Furthermore, the South Australian industry is particularly integrated, with 60 percent of the state's production directly part of two established supply chain alliances. Approximately 22,000 sows are linked into the Australian Pork Farms/ Auspork supply chain, with Australian Pork Farms having 16,000 sows in their own right. The state's second biggest alliance is the TOP Pork/ Primo/ Coles alliance which has 10,000 sows in the group.

Furthermore, when it comes to defining 'like' or 'directly competitive' goods, the actual goods being imported are boneless legs and boneless middles. Both these goods are also produced directly from Australian grown pork. Thus the imported goods are exactly same and directly compete.

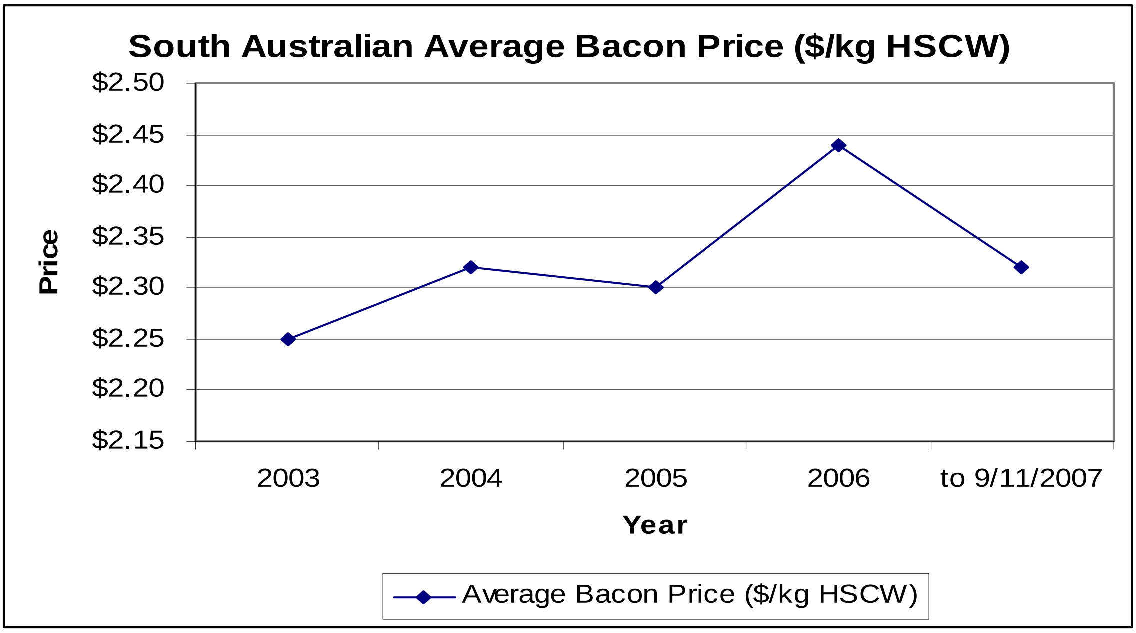
2.4 Serious Injury Being Suffered

2.4.1 General Pricing for South Australia

The simple fact is that the import parity price sets the upper limit for which the wholesale marketplace will pay for pigmeat regardless of whether it is to be used in the manufacturing or retail trade.

The effect of this 'price ceiling', set by bulk, frozen, imported pigmeat, is an inability to capture any price premiums the local retail trade would normally pay for domestically produced fresh pork. This problem is further exacerbated by the fact that imported pigmeat is produced from much larger carcases creating greater economies of scale for both the foreign pig producer and processor.

The effect of the 50 percent increase in import volumes over the past twelve months is clearly demonstrated in Figure Two below. The industry experienced a steady increase in the bacon price between 2003 and 2006. However, this year the average price for the calendar year up to 9 November is down $0.12 /kg HSCW.



<u>Figure 2: Average Bacon Price (per kg HSCW) for South Australia 2003 – 9 Nov 2007</u>

The average carcase weight for South Australia is 74.5kg (Australian Pork Ltd 2007). This means that with annual kill of 1,047,000 pigs there has been an income reduction of some $9.36 million across the state's industry over past twelve months alone.

Accordingly, there can be no doubt; the South Australian pork industry is suffering serious injury! Farmers are now abandoning their farms because the cheap imports have flooded the market and forced down prices (ABC Rural 2007a). The inability of the state's industry to lift pricing in order to receive a reasonable return for the level of investment is having a dire impact on the financial and social welfare of this state's pork producers.

SAFF outlines three case studies below; in order to demonstrate the direct impact imported pigmeat is having on the state's production industry.

2.4.2 Case Study One

Financial Analysis

Farm 1 has operated profitably in every year since 1998/1999 with the exception of 2003/2004 and the current year of 2007/2008. Losses experienced in the first quarter of the current financial year are $14,067. Furthermore, an additional $10,273 in losses has been incurred for the month of October 2007 alone. The loss in October was equivalent to the loss experienced for the entire 2003/2004 year.

Farm 1 is budgeting for a full year loss of between $36,000 and $50,000, adjusted up or down by a reduction or increase in feed costs and a reduction or increase in bacon price/kg. Their average prices for baconer pigs and chopper sows are below in Table 1.

Table 1: Average Prices for Baconers and Choppers for Farm 1 (2002-Oct 2007)

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)
$ / kg baconer (HSCW) Trim 1	$2.78/kg	$2.30/kg	$2.49/kg	$2.31/kg
$ / kg porker (HSCW) Trim 1	N/A	N/A	N/A	N/A
$ / kg cull sows & boars(HSCW)	$1.67/kg	$2.23/kg	$1.94/kg	$1.03/kg

Trim 1				
$ / kg cull other (HSCW) Trim 1	N/A	N/A	N/A	N/A

Capital Investment

Farm 1 has invested in excess of $800,000 in land and buildings over the years on their farm. Their expenditure decisions have been based on animal/human welfare needs and a reduction in operating costs. They have made continual improvements in profitability brought about by increased production and lower feed conversion.

They have always sought veterinary advice and currently adopting the latest research in an effort to further reduce feed wastage, which has been a key focus area for the business over the last 5 years. This farm has a high health status, correspondingly low medication costs and has had no need to de-stock at any time because of disease reasons.

If economic conditions forced Farm 1 to cease pig production on this property, the land would revert to horticultural use because of current zoning laws. However, it would be unsuitable for this purpose because of piggery buildings and effluent dams, thus rendering it with an effective nil value.

Production & Marketing

The weekly turn off from Farm 1 is 60 bacon per week. These pigs are sold both locally and to interstate purchasers. They are sold into both the fresh and processed markets. The ratio of fresh to processed product has changed substantially over the last 5 years.

In 2002, approximately 40 percent of weekly turn off would have gone to fresh meat with the remaining 60 percent being used by the processing industry. In 2007, approximately 70-80 percent of weekly turnoff now goes to fresh meat with the balance being diverted to processed product.

This change in direction has brought about a need to produce lighter carcases for the fresh meat trade, despite this carcase being more expensive to produce. Furthermore, no financial incentive has been offered or given for this production inefficiency.

Forward Budgets

Whilst, there has been a slow decline in profitability since 2004/2005, the current year is showing a dramatic downturn in profitability. Nutritional advice sought advises imported feeds do not offer us a cheaper product than the current highly priced local grain. The most frustrating aspect of this situation is the industry's inability to increase the baconer price in order to cover rising operating costs because of the market cap created by imported pigmeat.

Future Planning

Farm 1 has maintained a stable workforce for the last 12 years. Their production has shown continual improvement over this period. Table 2 depicts the bacon price/kg they have received since 1997 to October, 2007 with the feed costs as a % of total income listed below.

Table 2: Farm 1 Bacon Price and Percentage Feed Costs 1997/98 – Oct 2007

Year	97/98	98/99	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	ToOct07
Average Bacon Price ($/kg HSCW)	$2.46	$1.82	$2.36	$2.64	$2.80	$2.64	$2.52	$2.60	$2.23	$2.27	$2.31
Feed Costs as a % of Total Income	77%	53%	57%	50%	45%	68%	74%	57%	54%	58%	78%

Over this period they have incurred substantial wage increases. Protein meals, grain pricing, energy requirements, freight, fuel, power, and water have all shown substantial increases.

There has been no reflection in the price/kg to allow for these increased costs. With the higher and higher level of imports of pigmeat entering Australia (50 percent increase in the last 12 months) they see no future improvement of profitability in sight.

The operators of Farm 1 have experienced droughts from time to time over their 40 years of involvement in the industry and thus highlights that this is not the reason for their pessimism.

Concluding Remarks

Farm 1 points out that:

- Australian production has been relatively stable, despite an increase by 50 percent over the last 12 months of imported pork entering the country.
- Australia does not have an oversupply of pork in the fresh meat area at present. The clear problem is with imports which are replacing that portion of the domestic production which is normally used by the processing sector.
- Previous mechanisms for negotiating a “fair” price have always been on efficiency of production and producing a good clean product. However, none of this applies any longer. The dressweight price is being based on the portion of the carcase which has an equivalent import entering the country (e.g. boneless legs). Cost of production or efficiency gains are irrelevant while this situation occurs.
- The Australian pork industry has a national quality assurance program which ensures a clean, safe product yet this same requirement is not made of the imported product.
- The Australian pork industry also has a Model Code of Animal Welfare, which adds to the cost of production and again, imported product is not required to meet the standards included in the Code.
- Although the operators of Farm 1 have been frugal over the years and put profits aside for difficult times, they now see no future in going into substantial debt when they chances of recovering this debt are minimal.
- For this reason they have reached the decision that they will leave the industry, the only matter to be decided is when and how.
- They feel for their employees who are in their mid years, unskilled in other areas, but have been good reliable employees over many years. If it was possible to see an industry recovery, they would review their decision for the single purpose of maintaining the employment of their employees.

2.4.3 Case Study Two

Financial Analysis

Table 3: Average Prices for Baconers and Choppers for Farm 2 (2002-Oct 2007)

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)
$ / kg baconer (HSCW) Trim 1	$2.65/kg	$2.28/kg	$2.48/kg	$2.28/kg
$ / kg porker (HSCW) Trim 1	N/A	N/A	N/A	N/A
$ / hd cull sows & boars	-	$221	$251	$218
$ / kg cull other (HSCW) Trim 1	N/A	N/A	N/A	N/A

Farm 2 is uncertain as to whether they will incur a loss this current financial year. Whilst a loss is very probable, they are budgeting to breakeven, they have taken drastic steps to cuts costs (as outlined further below) and borrowed significant funds.

Production and Other Costs

Farm 2 reports that a 5.0 percent drop in conception or failing to hit a specific production target by as little as 5.0 percent can produce a financial crisis as production efficiency is about the only variable they can control.

They have been managing to service their loans and gradually reduce debt but the ‘wriggle’ room has steadily decreased to the point where there is now no room to move. Pork prices simply have not increased as import levels have grown and grown, almost exponentially.

They also highlight that they have experienced significant increases in employment costs due to the competition from other industries in a low unemployment environment. Furthermore, they have had massive increases in feed costs in the past two years (particularly for cereals, legumes and milk powder). Additional cost increases have also been incurred in the areas of:

- Power;
- Water;

- Insurance; and
- Transport

Farm 2 continues to strive for greater production efficiency. For example, they have implemented the following measures across their business (since 2002) in order to reduce their cost of production:

- New Human Resource system (2005);
- Reduction in staff turnover;
- Better work efficiency, keeping it to minimum;
- New air conditioning system for the farrowing and weaner operations tor reduce sow mortality in summer (2004);
- Four weekly batching programme, having many production advantages (2007);
- Fully observed farrowing for 80 percent of sows, which should produce about another 100-120kg of meat per sow place per annum (2007);
- Higher energy specification for all grower diets, with the first indications showing a 20g/day increase in growth rate with only 0.5mm increase in p2 (2007);
- Not replacing a manager who resigned and now doing work ourselves (2005);
- Joined a benchmarking group (2006);
- Laid off one staff member (Jan 2007);
- Restructured company to single director (2007);
- No payment of annuities to other shareholders (part of parents retirement income);
- Reduced Managing Director's Salary by 30% (2007);
- Owners now taking salary as drawings to reduce immediate cash cost of PAYG, superannuation and WorkCover but are in effect now working without insurance (2007);
- Laid off all consultants except veterinary and accounting (2007);
- Have 'laid off' their transport company and now do all pig transport themselves; and
- Paid cash for new lunchroom in June but have had to sell and lease back the building (2007).

Additionally, future measures currently being considered include:

- Using synthetic growth hormone (PST);
- More staff lay offs (although they are very reluctant to do this as they now have low turnover and outstanding staff); and

Feed Grain Costs

- Feed costs as percentage of expenses

2002	39%
2006	43%
2007	46%

Fluctuating grain price has increased their input costs by 7.0 percent compared with 2002. Whereas they have seen a 15 percent drop in bacon prices over the same period in real terms.

At harvest 2002, Farm 2 paid $295.00 per tonne for barley but by the July of that year the price had eased back to $185.00 other feed grains were similarly priced in that year. In the intervening years, they have paid between $125.00 and $185.00 per tonne for barley. In 2006, they paid $235 expecting the market to come back in July, it did not. This year they paid $292.00 for barley (a sum about which they are pleased in some ‘pyrrhic’ kind of way). They do not expect the market to ease by much at all for this coming harvest. The primary differences between 2002 and 2007 are:

- 2002 drought produced a short term Australian shortage of grain which was overcome by strong opening rains and good world grain supply
- 2007 is after prolonged Australian drought, world shortage of grain, poor harvests in many major world regions, increased demand for grain from increased world population and high demand from ethanol producers. This is in spite of a dollar in the 90c range.

They have been advised to expect feed grains to stay above $200.00 plus per tonne for the foreseeable future (2-5yrs). Legumes have also increased by similar margins. Nevertheless and although feed pricing is important, the pork price is the single biggest driver of profitability.

Capital Costs

As Farm 2 correctly points out, 90 percent of piggery investment is non-recoverable. Piggeries are by nature investments in entropy and the infrastructure is not easily convertible for other uses. Specific to Farm 2, they have 660 acres of farming land of which the piggery occupies on 80 acre section. In the past five years the land value has doubled or better and the piggery asset has depreciated by 15-25 percent. The only investments they have made in the past two years in the piggery have been in equipment that is easily saleable or of necessity to replace penwork or repair equipment.

They will have increased debt levels by $175,000 dollars by January 2008. $75,000 of this has been to fund operating shortfalls (this has been augmented by $30,000 of director's funds) and will they borrow a further $100,000 to supplement sale of non-feed grain production from their farm to purchase 48 weeks worth of feed grains for their sow herd. They hope that by capitalising this feed cost, they can return to a breakeven situation on a monthly cash basis (they have long since given up accounting depreciation – a fool hardy exercise in pig production). Sadly, if by October 2008 they have not achieved sustained profitability they will probably cease trading as more investment will be required, which would not be sustainable. This would end 149 years of their family farming on this property.

Risk Management

Farm 2 has historically bought their grain in the spot market at harvest. Their strategy is to 'over buy' by 50 percent (of their annual requirement) when prices are in the lower deciles, and 'under buying' (by 40 percent) in years when prices are in the higher deciles. They believe that this has produced acceptable smoothing of grain prices up until this current year. They also retain a production capacity for growing a portion of their grain requirements.

With regards to selling their pigs, they are a 'vertically integrated' enterprise owning shares in the wholesaling company and the abattoir at which their pigs are killed. This strategy has given them much more control and some guarantee over kill and price for pigs.

Twenty five percent of their production is contracted to a fresh meat supply chain with a 'volatility control' on the pricing mechanism. Fresh meat contracts are essential to guarantee profitability, as 'processing' meat price is totally driven by import prices. Accordingly, this is having a tremendous impact on their profitability given that 75 percent of their pigs are sold into the processing trade. Imported pork growth rates of 50 percent per annum are unsustainable and are regarded as a non-controllable risk, which frustrates the owners of Farm 2.

Farm 2 reports that management and key staff are experiencing increased stress levels, with this following directly through to their families resulting in greater health issues, ongoing exhaustion and greater strain on personal relationships. By not being covered by WorkCover (to reduce costs) management is assuming more risk on themselves in terms of outcomes if a personal injury event occurs. In addition, income protection insurance is prohibitively expensive.

As aforementioned, Farm 2 has increased debt levels and currently experiencing negative profitability. Whilst prudent management has ensured that the business has maintained a strong equity position historically, the current owners only took over the business from elder family members in July 2006. Their first two trading years have not enabled them to establish any buffer.

Concluding Remarks

Farm 2 points out that:

- Australian production has been relatively stable, despite an increase of 50 percent in imports over the past twelve months;
- In 22 years of involvement in this industry they have never seen a trading circumstance as bad and with such little hope for redemption;
- Input costs are likely to remain high against a background of cheap pork prices;
- Pork price will continue to be affected by import prices. As long as the dollar remains high, imported pork will continue to be comparatively cheap;
- Increased import volumes (at the level of 50 percent increase per annum) will put massive pressure on pork price in the domestic market due to oversupply;
- They firmly believe in the principles of free trade and that businesspeople must determine methods to make their individual business profitable. However, they now find themselves in the situation that all their best efforts are unable to produce a profit situation under any circumstance as imports push prices down and displace locally produced product.

2.4.4 Case Study Three

Financial Analysis

For the 2007/08 financial year Farm 3 is expecting to make a loss of $65,000. This is clearly significant. The owners of Farm 3 are relatively new entrants to the industry (1994) and are carrying a debt of $250,000.

Farm 3's average prices for baconer pigs and chopper sows are below in Table 4.

Table 4: Average Prices for Baconers and Choppers for Farm 3 (2002- Oct 2007)

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)
$ / kg baconer (HSCW) Trim 1	$2.56	$2.32	$2.56	2.37
$ / kg porker (HSCW) Trim 1	$3.18	-	-	-
$ / kg cull sows (HSCW) Trim 1	$1.90	$1.74	$1.70	$1.59

Farm 3's financial performance is detailed below in Table 5.

Table 5: Financial Performance for Farm 3 (2002 - Sept 2007)

Type	i) Financial year ending June 2002	ii) Financial year ending June 2006	iii) Financial year ending June 2007	iv) 3 months ending September 2007 $
Income from pig production only	$545,849	$427,447	$574,254	$117,695
Expenses from pig production only	$451,284	$441,600	$405,687	$122,237
Net Profit / (loss)	$94,565	-$14,153	$168,567	-$6,199

Production and Other Costs

In 2005/2006, the piggery made a loss due to expenses incurred in undertaking a ‘Swiss Depop’ for disease eradication purposes. However, this is also predicted for 2007/2008 because of low prices.

Farm 3 was in the process of expanding, but this has been put on hold. Approximately half of the finance that had been negotiated for the expansion will now be diverted to operating activities. Up until 2007, the farm had ensured that all maintenance requirements were up to date. However for 2007/08 any maintenance expenditure is being prioritised to ensure only maintenance essential for human and animal welfare is undertaken. The farm has a supply contract which does not include price. Price is determined by the market, so Farm 3 is unable to recover all costs.

Some of the actions that they have undertaken since 2002 include:

- Swiss depop;
- New feeders to minimise feed wastage;
- Improved feed conversion efficiency;
- New breeding stock;
- New farrowing crates;
- Improved the number of pigs weaned/sow/year

Comparing 2002 to 2007, the farm has halted expansion and will not be undertaking any non-essential expenditure for 2007/08 year. This will have a lasting impact on the capacity of the farm to recover should market conditions improve because additional maintenance expenditure will be incurred in future years. Whilst in 2002, all farm expenditure (e.g. for maintenance, or capital) was fully funded in that year.

Farm 3 is currently selling females approximately 5kg lighter than in 2002 and whilst it has always had a program of culling non-performing sows, but hasn’t reduced sow numbers.

Feed and Grain Costs

Farm 3 is budgeting on an average grower feed cost of $415.00/t for 2008. The grain produced on the farm is costed in to piggery at sale value and they purchased extra grain direct from farmers where possible. This has been their process for several years.

The average grower feed cost in 2002 was $258/t whilst in 2003 grower feed cost rose to $350/t.

Alternative feed has not been sourced but instead grain has been grown or purchased at harvest and stored on farm or in ABB storage system. This has resulted in an increase in interest costs carried by the farm.

In 2002, the average cost of feed for Farm 3 was $357/t compared to feed costs in 2007 of $467/t. Wheat was $220/t and barley cost $220/t in 2002, whilst today it is $350/t for wheat and $280/t for barley. As a result, Farm 3’s feed cost as a percentage of total operating costs has increased from below 60 percent to over 70 percent of their total operating costs.

The key issue that Farm 3 highlights is that whilst the drought has a short term adverse impact on feed costs risk management tools can be deployed to help overcome this. Whereas with imports there are no tools that can be used to stop the volume of cheap imports coming in.

Capital Requirements

Farm 3 has approximately, $400,000 invested in piggery infrastructure, feed plant and general plant and equipment. In the past 12 months, $100,000 has been spent on infrastructure i.e. three straw based shelters, which is not usable for any other purpose. This has allowed Farm 3 to increase sow numbers but further infrastructure investment has been halted. The piggery is situated on 120ha purchased specifically for the piggery. The surrounding land unused by the piggery is utilised in their broadacre cropping business.

Risk Management

Farm 3 currently has a supply agreement in place for the sale of their pigs. Whilst, they have no contracts in place for the purchase of grains, they have developed relationships with growers in the district to purchase grain at harvest, or to have some stored on farm for purchase at a later date.

Farm 3 has focussed on increasing productivity and efficiencies in order to have the ability to ride out any downturns in the industry. Their aim has been to produce a top quality product for the fresh market. They were in a process of debt reduction over the whole farm business. However, this strategy has now changed as some of the money is directed to funding the operational shortfall.

Profitability

To date, Farm 3 has been prepared to ride out loses incurred. However, with the large volume of imports they believe that they will have to wait for producers to exit the industry before the market reacts to the shortage of fresh supply.

Farm 3's production is aimed at the fresh market. So although imports do not supply the fresh market, the imported product does directly impact on the price of this market; it has the effect of creating of a price ceiling.

2.5 Further Serious Injury will be Suffered

The market penetration of imports is clearly accelerating. If the five year trend 2002 – 2007 is extrapolated out, 80 – 85 percent of the processing trade's requirements will be supplied by imported pigmeat within two years. Even more frightening, this figure will be achieved during 2008, if the same rate of growth seen over the past twelve months is applied.

The flow on effects of this will be catastrophic. Apart of the obvious decline of pork producers in this State, the service industries will be badly affected. Two case studies are presented below to demonstrate the injury that will be caused by the continuation of high volumes of cheap imports.

2.5.1Stock Feed Company A

Stock Feed Company A services the Australian pork industry. They report the down turn in the Australian pig industry due to injury caused by imports will mean that:

- Their pork industry sales base will decline as much as 20 percent with very little prospect for future growth;
- Their sales projections are 17.5 percent down on budget at the end of this financial year alone;
- They will not be increasing the number of people they employ as previously budgeted for;
- In fact numbers will probably decline as employees leaving through natural attrition will not be replaced; and

- They worry that in the long term they will not be able to continue to provide the same level of services to the industry because the numbers will not be there to warrant it.

2.5.2 South Australian Abattoirs

Abattoirs by their nature are geared around throughput. Accordingly, any reduction in South Australian production will have an impact on the two abattoirs operating in this State. A drop in slaughter numbers and loss in scale is a serious threat to this sector of the industry. Furthermore, the displacement of local production into the domestic fresh meat trade and resultant lighter carcase weight will also reduce the efficiency of the two plants. Should these become a reality, rationalisation will be evitable and there is fair chance that one of the plants will be forced to closed.

A closure would see the loss of up to 300 jobs and the economic impact that this would have on the surrounding regional would be significant to say the least, given the money that the two abattoirs put back into the local economies.

2.6 Remedies

The only solution to this massive problem is the immediate introduction of a safeguard, which is a legitimate remedy under WTO trading rules. More specifically, a significant tariff is required in order to restore the economic balance in the marketplace and provide some ‘breathing room’ for the industry.

3. Conclusion

Based on the data provided by these three case studies, the South Australian industry is expected to carry losses for this financial year of between $175 and $405 per sow. Extrapolated out, this means a combined loss of between $9,625,000 and $22,275,000 for the state's pig production industry.

Even in cases where individual farms are attempting to breakeven (such as in Farm 2), they still serving high amounts of debt and have implemented significant cost cutting measures which are clearly not sustainable for any extended length of time. In effect, the industry's efforts to increase its competitiveness have been completely undermined.

Thus the South Australian pork production industry is in deep financial difficulty. This difficulty arises because imported pigmeat is a double edged sword; it displaces locally produced pork from the processing market pushing that product into the domestic fresh trade, and it sets the ceiling price for all pork preventing the industry from receiving a fair return for its level of investment.

This is exactly what is occurring across the industry right now, unlike the egg and chicken meat industries that do not have to compete with subsidised imports. As a result, competing meat proteins such as chicken have risen by as much as 30 percent this year (ABC Rural, 2007b).

Continuing to provide consumer choice is vital for an active, healthy and competitive domestic industry rather than handing it all over to the Danes (for example) who are subsidised under the European Union's Common Agricultural Policy, which provides an export refund.

So to conclude, the message is simple, the South Australian industry has been seriously injured by the surge of imports, and the threat of further injury both within the pork production industry and service industries is imminent. Irreparable damage will be done if provisional safeguards are not applied *immediately*. The safeguards measure must be a *significant* tariff; such that farmers' cash flow is restored, providing them with an opportunity to take stock of the current situation.

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