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To whom it may concern:

***SUBMISSION TO THE PRODUCTIVITY COMMISSION: SAFEGUARDS INQUIRY INTO THE IMPORT OF PIGMEAT***

This is a submission from Baden McDouall of Calco Enterprises to the Productivity Commission's Safeguards Inquiry into the Import of Pigmeat.

In this submission, I wish to address the following matters:

1. Imports are injuring the Australian Pig Industry and as such, appropriate provisional safeguards should be implemented to stabilise the industry;
2. Grounds exist for the Productivity Commission recommendation to implement provisional safeguards and general safeguards.
3. An implementation of provisional safeguards and general safeguards would not:
   .a. be a disincentive of the industry or for our farming enterprise/company to adjust; or
   .b. inhibit the international competitiveness of our industry; or
   .c. impact negatively on consumers in terms of price increases; or
   .d. slow our farming enterprise or industry restructure.

We have evidence of the actions already taken by our farming enterprise to manage import pressures. We have comparative evidence to show that our farming enterprise is responsive to changes in the industry. We show how our business has changed and by how much from 2002 to 2007.

We demonstrate that despite out continued efforts to restructure our operations, imports are dressing our pig prices and impeding our ability to recover our costs of production. It is imports which are causing serious injury to our business and without immediate provisional safeguard action, we are faced with long term irreparable damage to the future of our business and in turn to the Australian Pork Industry.

I would be happy to discuss any matters raised in my submission with the Commission, given the opportunity to do so and can be contacted on Mob: 0427247144 anytime.

Yours sincerely,
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## 1. Farming Enterprise/Company Background

**Calco Enterprises** is a 190 sow farrow to finish operation in North West N.S.W. It is a family run business which was established in 1850 and consists of 3 main enterprises including cropping, beef cattle and the piggery.

The piggery was established in 1968 when there was approximately 60000 pork producers in Australia. Today there are less than 1500 and this number is falling by the minute along with the infrastructure that supports them.

The three enterprises of cropping, beef cattle and pig production are interlinked. The grain from the cropping enterprise is value added through the piggery and waste from the piggery is recycled back onto the pasture and cropping land, as a natural fertilizer. This allows us to increase the kilograms of beef produced per hectare and grain production and reduce our reliance on chemical fertilizers.

## 2. Farming Enterprises/Company Structure, Production and Markets

### a. Production

At present we have 170 sows in production and 1700 growing stock on our farm. Our average weekly turnoff is 80 pigs averaging approximately 68kg dressed weight Trim 1.

40% of these pigs go to Bangalow Sweetpork as fresh product into butcher shops.

60% to Nathan Fathers Meats in Sydney, a wholesaler market who sells also into butcher shops.

### b. Marketing Strategies

In 2002 Calco Enterprises was supplying KR Darling Downs heavy bacon pigs. It was a lucrative market as the heavier carcasses allowed us to reduce overhead costs per kilo carcass weight together with good prices. However as subsidised pork imports increased , this market was directly affected and prices plummeted as KR Darling Downs struggled to compete with other processors choosing to use imported product.

It was in 2004 as subsidised imports steadily increased we decided to steer away from producing the lean heavy commodity pig and develop a niche market.

In 2005 we began supplying Bangalow Sweetpork under licence. This allowed us to command a premium for 40% of our product. The remaining 60% still goes to wholesalers in Sydney, who are also coming under increasing pressure from subsidised imports.

### c. Employment & Regional Business Effect.

In 2002 we employed two (2) full time employees. One in the farrowing shed and one mating and maintenance as well as a part time employee in the feed mixing area, myself in a management role and my wife part time secretarial. As margins decreased due to increasing imports we were forced to lay off the part time employee last year 2006. I am now working 70 hours per week to cover and my wife has taken on another day at the bank to make ends meet.
Currently Calco purchases approximately $780000 of input from North West New South Wales businesses , primarily Barraba and Bingara.

## 3. On Farm Profitability

### a. Prices

**Table 1**

| Type | I) Financial Year Ending June 2002 | II) Financial Year Ending June 2006 | III) Financial Year Ending June2007 | IV) Current Pig Price (Oct 2007) |
|---|---|---|---|---|
| a) $/kg baconer (HSCW) Trim 1 | $3.00 | $2.35 | $2.45 | $2.60 |
| b) $/kg porker (HSCW) Trim 1 | $3.30 | $2.65 | $2.70 | $2.80 |
| c) $/kg cull sows | $1.40 | $1.20 | $1.00 | $0.40 |

**Table 2**

| Type | I) Financial Year Ending June 2002 | II) Financial Year Ending June 2006 | III) Financial Year Ending June2007 | IV) 3 Months Ending September 2007 |
|---|---|---|---|---|
| Total Farm Income | $1 789 473 | $1 419 371 | $1 505 604 | $416 661 |
| Income from Pig Production only | $869 389 | $693 565 | $791 838 | $202 465 |
| Expenses from Pig Production only | $666 101 | $671 581 | $783 629 | $211 022 |
| Net Profit/(Loss) | $203 288 | $21 984 | $8 209 | $(8 557) |

**b. Operating Expenses**

**I) Production and other costs**

Calco priggery operating expenses from June 2002 to June 2006 stayed relatively steady or decreased slightly in real terms as a result of a) increased efficiency in our milling area (being able to use bulk ingredients), b) better trained staff , c) improved FCRs and d) an increase of piglets weaned per sow from 9 in 2002 to 10.4 at the end of 2006. Piggery income, due to subsidised import pressure, decreased by $176 000 over the same period.

Since June 2006, we have been able to increase our Gross income due to our supplying the niche market Bangalow Sweetpork and an increase in pigs/weaned/sow average from 9.2 to 10.3. Zero spending on capital, a reduction in repairs and maintenance and a reduction in staff and severe culling of older inefficient sows, however, has had little effect in preventing the piggery entering negative territories over the last 12 months.

**II) Feed and Grain Costs**

The average cost of our grower ration over the past 12months was $384/tonne. Our breakeven price per dressed weight kilo over the past 12 months was $2.80/kg average.

We grow 70% of our grain for the piggery in an average year, this saves us $30 to $50 a tonne in freight charges. In times of drought however we buy in up to 90% or our feed increasing our cost of production.

Feed grain represents approximately 45% of our total costs in the piggery. **IT IS IN THIS AREA THAT IMPORTS FROM USA and EEC (Denmark) HAVE A GROSSLY UNFAIR ADVANTAGE OVER THE AUSTRALIAN PRODUCT. MASSIVE AGRICULTURAL SUBSIDIES ARE HANDED OUT TO GRAIN FARMERS IN THESE COUNTRIES. THESE GRAIN FARMERS LIVE OFF THE SUBSIDIES AND SELL GRAIN BELOW THE COST OF PRODUCTION. THE MORE THEY PRODUCE THE MORE SUBSIDY PAYMENTS THEY RECEIVE. THE LARGE AGRIBUSINESS PIGGERIES IN USA and DENMARK HAVE ACCESS TO THIS CHEAP GRAIN AND CAN LAND PORK ON OUR SHORES BELOW OUR COST OF PRODUCTION. TWELVE MONTHS AGO CORN IN THE USA WAS TRADING AT $A90/Tonne, ONE THIRD OF THE PRICE OF AUSTRALIAN CORN.**

**4 weeks ago we paid $445/tonne for feed grain. At the same time feed corn in the USA was trading at $A145/tonne. This must be addressed at a Government/Trade level if the Australian Pig Industry is to be allowed to compete fairly and prosper.**

**c. Capital Requirements**

For the Calco piggery to remain viable in the future existing grower shed must be turned over to sow accommodation and new grower sheds and feed systems erected off site. A new mill is also required. This is not possible under the present trading conditions.

**d. Risk Management**

In 2005 we built a bulk grain shed which holds 500 tonne of grain, on top of our existing 800 tonnes of grain storage. This allows us to store 18 months worth of grain and buy in grain when it is at the lower end of its trading range.

Grain Futures are used from time to time if we are looking to buy in grain at a later date.

e. **Profitability**

In 2002 we were supplying heavy bacon pigs to KR Darling Downs at an average of $3.00/kg and the piggery enterprise posted just over $200 000 net profit. At that time 30% of Australian manufactured pork was imported and beginning to increase. As the level of imports increased our profitability decreased due to lower prices and we chose to seek out a domestic niche market. This was achieved in 2005. Whilst this guaranteed a lift in prices, costs also rose.

As costs continued to climb in 2006 and 2007 so did imports which kept a lid on prices. (see Table 1) As Imports assumed 70% of the Australian market in 2007 our net profit turned negative, despite increased production efficiencies.

Whilst we have lost market share on the domestic manufacturing market, we were able to turn our pigs off into the fresh pork market at higher prices. However, due to the smaller carcasses required in this market our cost of production rose also.

## 4. Impact of Imports

As I have described above subsidised imports have had a massive effect on the profitability on our operation, due to the following:

1. Creating a continual over supply of cheap subsidised meat in the market place, thus reducing carcass prices.
2. Forcing the closure of other piggeries in the area and abattoirs that process them. As a result, we are forced to transport our pigs longer distances to be slaughtered Incurring more costs on our business.
3. A lowering of staffing levels and an increase in my hours to cover.
4. Forcing a reduction in sow numbers and future throughput of pig meat.
5. Forcing my wife to obtain further employment (off farm)
6. A loss of access to a once lucrative domestic manufactured pork market.
7. A loss of knowledge and experience as the efficient producers that remain are forced out of the industry

I believe imports have cost our operation $700 000 since 2002. If we are forced to close down the piggery it will cost our local economy $700 000 per annum thereafter.

## 5. Conclusion

Our business suffers greatly from imports both financially and in terms of our market share. We are unlikely to maintain losses. In the next twelve months, if import levels are sustained or continue to increase, and provisional safeguards are not applied, we will need to take on or more of the following actions:

Close the facility
Downsize further
Lower employment levels
Cut supply to domestic market
Reduce grain purchases

Attempting to re-enter the industry after exiting involves significant cost.

Our towns and region rely on our business to provide many jobs and we contribute $700 000 to our local and regional businesses annually. Further cut backs in our business will in turn have an adverse accumulative affect on local businesses and the community in general.

Calco Enterprises 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 imported pig meat, produced from artificially cheap subsidised grain, from USA and the EEC 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 to 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.The Australian Government must take responsibility for this inequality in trading terms and put in place measures to stop the systematic decay of the Australian pig industry.