SUBMISSION BY

STOCK FEED MANUFACTURERS' COUNCIL OF AUSTRALIA

TO THE

PRODUCTIVITY COMMISSION SAFEGUARDS INQUIRY INTO THE IMPORT OF PIGMEAT

NOVEMBER 2007

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IDENTIFICATION

This submission is presented by the Stock Feed Manufacturers' Council of Australia (SFMCA).

SFMCA is the Federal Council body representing the State stock feed manufacturers' associations. Individual companies involved in stock feed manufacture belong to their relevant State association. SFMCA members manufacture in excess of 90% of commercial feeds sold within Australia.

SFMCA member companies manufacture over 4,600,000 tonnes of animal feeds annually across Australia, of this 26% is pig feeds. Pig feeds are supplied by feed manufacturers to pig producers located in all States.

SUBMISSION

The SFMCA within this submission addresses the inquiries terms of reference relating to industry structure and feed costs.

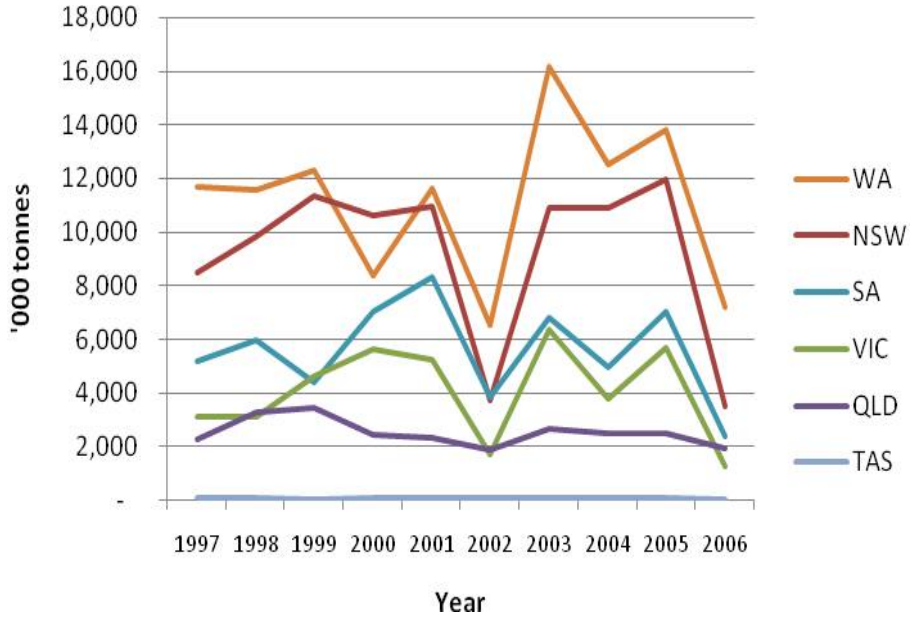
1. Feed Grain Cost Drivers

The largest cost component of pig feeds is grain. The various grains used in Australia include wheat, barley, sorghum, triticale and oats, as well as grain pulses being lupins, pea and faba beans.

1.1. Grain Supply

The Australian grain supply demand equation has been tightening over the last 20 years as feed grain demand for animal feeding has increased at a faster rate than grain production expansion. This increasing demand has co-incided with more frequent poor cropping years where available rainfall has reduced grain production. Chart 1 identifies the variation occurring in winter grain production where 2002/03 and 2006/07 resulted in low grain availability. The present years 2007/08 grain crop is also well below average, this has been compounded by Australia having negligible grain carry-over stocks from the previous cropping year.

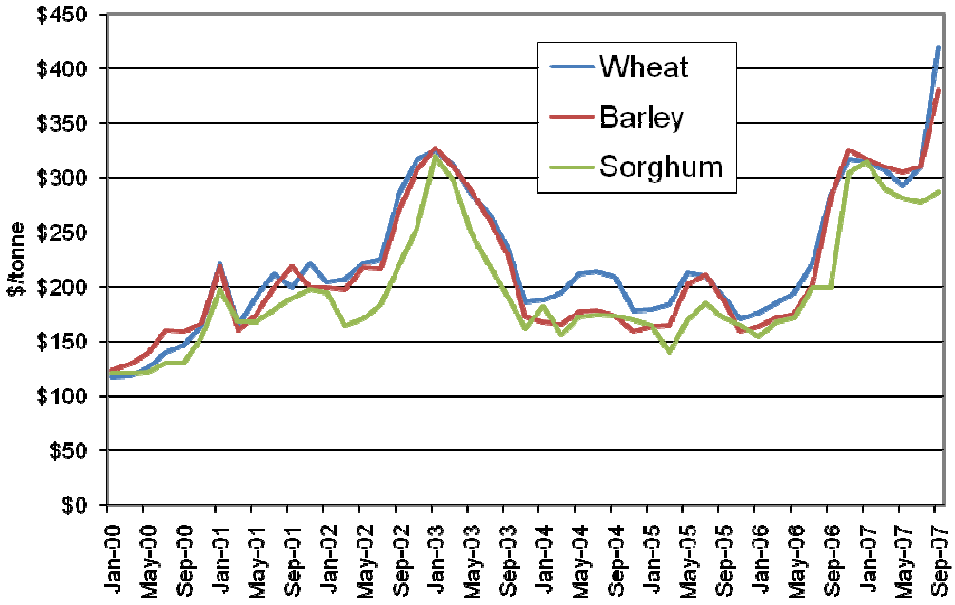
Chart 1: Total Winter Grain Production by State 1997-2006



Sources: ABS 1997-2005, ABARE projection 2006

Lower grain production results in increased grain prices as grain stocks are held by sellers in a rising market. Chart 2 identifies the significant increases in grain prices resulting from lower grain production periods. Within the second half of 2007 feed grain prices have exceeded $400/tonne as market supply has not met demand.

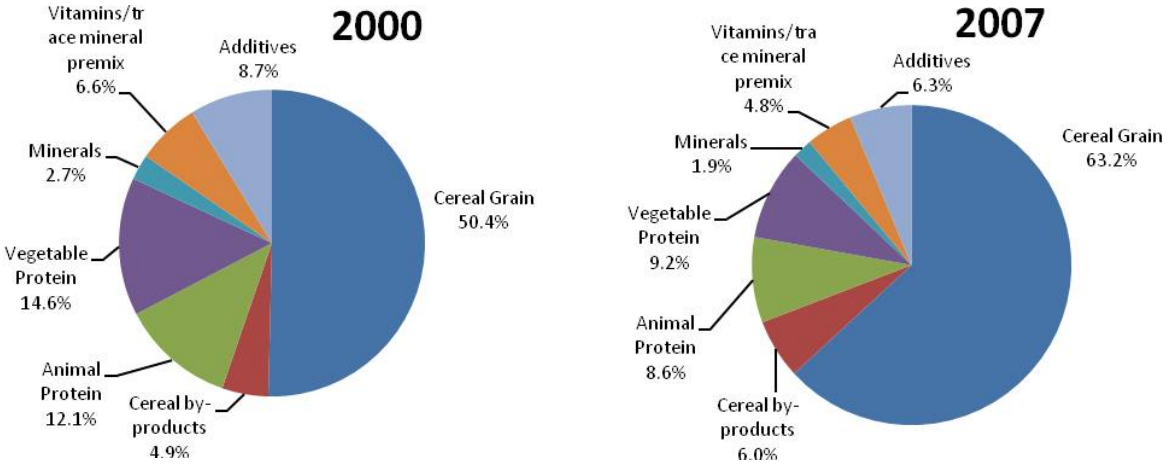
Chart 2: Wheat, barley and sorghum prices 2000 – 2007, grain prices average market value across Qld, NSW and Vic.



Source: SFMCA member data

With higher grain costs resulting from declining grain production, the grain cost significance upon the cost of pig feeds increases, this being shown in Charts 3 and 4. Comparing 2000, a non drought year, and 2007, a high grain cost drought year, shows that cost of grain as a component in pig feed increased from 50.5% to 63.2% of the raw material cost. The cost of other raw materials such as cereal by-products also increase.

Charts 3 & 4: 2000 and 2007 Value of feed raw materials - % of pig ration cost.

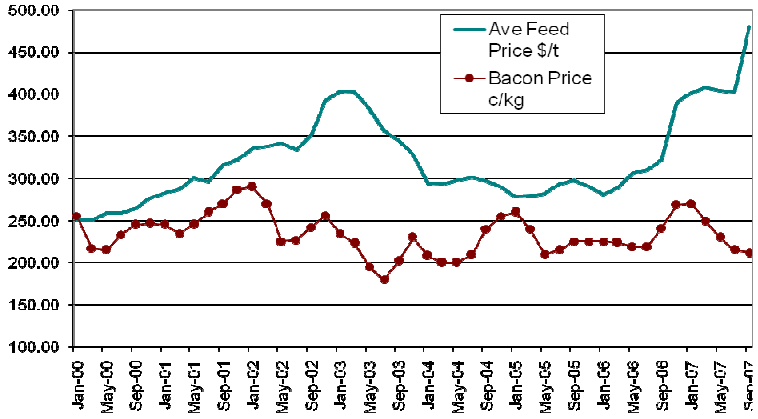


Source: SFMCA data

The rapid increase in feed grain cost has resulted in pig producers having production costs greatly exceeding pig meat price returns. The impact of grain price rises directly impacts upon feed costs. Chart 5 shows the relativity between average pig feed prices and bacon prices paid to producers. The pig feed price is derived from stockfeed manufacturers based upon the average price delivered onto farm.

Pig feed prices have fluctuated from a low of $250/tonne in January 2000 to present highs of $480/tonne. The high feed costs are a direct result of high grain prices. The data shows the inability of the pig industry to gain pigmeat price increases to compensate for the increased feed costs.

Chart 5: Pig feed cost versus bacon price 2002 - 2007



Sources: Feed prices - SFMCA manufacturer data, bacon prices - APL weighted average bacon price

1.2. Grain Importation

Security of grain supply is a significant limitation for the Australian pig industry. This position is exacerbated due to tight importation control mechanisms which prevent ready access to overseas grain supplies. Under existing whole grain importation protocols, feed grains can only be imported under AQIS controlled permits, with this grain being sourced from a limited number of supply countries and regions. Upon arrival in Australia, whole grain can only be used by metropolitan based feed mills with heat processing capacity.

The SFMCA estimates that total metropolitan based feed milling capacity would allow the use of approximately 1,000,000 tonnes of imported feed grains annually. The majority of this feed using imported grain would benefit the chicken meat industry. The pig industry being located away from metropolitan areas does not have capacity to access imported feed grains.

These import control mechanisms are in place to prevent potential plant pathogens and weed seeds entering Australia to the detriment of grain growers. This is in stark contrast to competing pigmeat producing countries that have an open grain movement position and can.

It is of note that the Australian pig industry has been exposed to having to compete with pigmeat imports, whilst at the same time not having capacity to readily access global raw materials to enable it to limit feed grain cost increases during periods of supply shortage.

Under "normal" production years, there is no economic incentive to import feed grains. However the frequency of poor harvest years is increasing, and ready access to whole grain importation is required to limit grain price rises to that being governed by import parity pricing.

1.3. Feed Grain Market Priority

A significant limitation for the intensive animal industries is the grains industries primary focus on the production of milling wheat and malting barley. The Australian feed grain market is seen as a secondary market outlet, and there is only limited dedicated feed grain production. This position is in contrast to that occurring within North America where there is an established and large volume dedicated feed grain production base.

During poor seasons with reduced grain supply, the livestock industries have to compete with Australian flour mills, malting operators and export marketers to source milling quality rather than feed quality grains for animal feeding. This circumstance results in the domestic grain prices paid for grain to feed animals being inflated.

The limited availability of grain within the Australian market results in a less than desired level of liquidity within futures trading markets as operated by ASX. Unlike the USA, larger end users can be greatly limited in what risk management tools can be taken to reduce cost rise risk exposure.

1.4. Wheat Pool Access

During periods of feed grain shortage, the largest holder of grain is AWB pool wheat. Under existing marketing controls, this wheat is only available to the domestic market through a tendering process. Whilst access to this grain has provided end users with greater surety of supply, there is a relatively high level of uncertainty relating to what grain is available and capacity of ensuring grain purchase. Through the operation of the single desk export marketing of wheat, the control within the domestic market is held by AWB.

Removal of wheat export single desk control and allowing more parties to operate will increase the number of entities accumulating wheat. This will provide a greater number of potential sellers during dry years as these marketers will have the option of supplying into the domestic market rather than committing to export sales. The SFMCA believes that wheat single desk leads to market distortion as well as limiting capacity to access more efficient grain marketing for growers specifically and more widely the supply chain.

1.5. Competing Grain Demand

The SFMCA has expressed negative sentiment towards the use of cereal grains in the production of ethanol. This position is based upon government support mechanisms being provided to the ethanol industry at the expense of other cereal grain users.

The biofuels industry needs to be economically viable without the need for accessing Government support funding or mandating the inclusion of ethanol in motor fuel.

Whilst the volume of grain going to ethanol is currently small in volume terms, there is great concern that Government incentives would have a detrimental effect upon the stockfeed and livestock industries.

2. Pork CRC Activity

The SFMCA supports the initiative in establishing the Pork CRC and the program and research activities that have been initiated. Focus being placed upon improving feed utilisation and efficiency of feed conversion will deliver benefits to Australian pig producers.

SFMCA however would like to state that we see benefits being derived from the Pork CRC over a longer time period. There are no “magic bullets” that the Pork CRC has available to provide immediate and significant benefits to pig producers. The level of cost impact from rising grain costs and lack of increase in pigmeat prices is far greater then the level of efficiency gains that will be derived from Pork CRC project work in the near future.

3. Impact on other Parties

The decline in pig production activity is significant. Survey data derived from SFMCA members is indicating that over 30,000 sows are being culled as producers either exit the industry or scale down their production. The extent of this decline has now become dependent upon the outcome of the Productivity Commission Inquiry, with many producers suffering severe impairment of their income on every pig sold and now holding out in the event of some form of industry support.

The decline in sow numbers is resulting in declining feed volumes, with this having an impact upon stockfeed manufacturers. This impact extends to many other service providers linked to the pig industry and pigmeat processing. This impact is occurring within rural and regional Australia.

4. Support Mechanisms

The Australian pig industry requires a support mechanism that takes account of the limitation of not having readily available grain supplies during poor seasons. In normal harvest years the pig industry has the ability to successfully compete with imported products. However during dry seasons, when crop failures are experienced, the limited access to imported feed grains denies the industry capacity to compete with subsidised imported pigmeat.

It would appear to be reasonable for there to be a form of tariff protection for Australian pigmeat which is activated when Australian costs of production relative to the price of pig meat exceeds a defined trigger point. This trigger only being active under extreme cost price squeeze periods as is currently being experienced. Such a tariff mechanism could be initiated by an independent body following review of available cost data and pigmeat prices. Conversely the tariff would be removed at the cessation of high input costs relative to meat prices.

This form of tariff protection would allow the industry some protection during the worst trading conditions, but would not result in the industry becoming dependent upon tariff protection. Pressure would remain on producers to continually strive for production efficiency.

5. Summary

The SFMCA believes the present crisis in the pigmeat industry is outside the industries control and government support is required to allow Australia to retain a viable pig industry. This support should include providing a means of preventing production cost escalation during periods of reduced grain production within Australia.

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