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SUBMISSION TO THE PRODUCTIVITY COMMISSION

Safeguards Inquiry into the Import of Pigmeat

November 2007



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Member of Stockfeed Manufacturers Association of Queensland

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Dr. Brenton Hosking
Better Blend Stockfeeds Pty Ltd

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Purpose of Submission

Better Blend Stockfeeds wishes to alert the Commission to the wider impact of pigmeat imports on rural businesses involved in the supply and service of the Australian pork production industry. Better Blend Stockfeeds is of the firm belief that:

- the local pork industry and the industries that service it have already suffered serious injury in the form of lost market opportunities as a direct result of steadily increasing pig meat imports
- continuation of current policies will only exacerbate the effect of pigmeat imports on regional employment in pork production and related industries and
- intervention through the enactment of safeguard provisions should be applied immediately to prevent further harm.

Overview

Since the 2005 Inquiry into the Pork Industry the effects of drought, high international prices for grains and protein meals and the strength of the Australian dollar have all contributed to circumstances that have favoured a progressive rise in the amount of pigmeat imported into Australia – to the point where now the amount of imported pigmeat is approaching the equivalent production of the entire national herd. If this level of consumption was supported from domestic production, the structure and confidence of the pork industry would be transformed – and all these animals would need to be fed. Considered in these terms, the amount of imported pigmeat is a forgone opportunity for Australian agriculture – for the grain grower, the feed manufacturer and an array of allied industries including the suppliers of feed additives, consumables, infrastructure and trucking – all contributing to increased employment and investment in rural Australia.

Together, events have now reached a critical circumstance where delay in application of some form of safeguard measures would cause damage which would be difficult, if not impossible to repair.

Effects on the Stockfeed Industry

On the supply side, we operate in an environment where the cost and availability of key raw materials are largely determined by events in the international commodity markets – in particular the CBOT and the soybean futures markets. Local events generally have little effect on the price we pay for our raw materials. However, the doubling of the world corn price in response to demand for biofuel production in the US coupled with a chronic shortage of locally produced grain and a reduction in world grain stocks has seen unprecedented increases in local grain prices and as a consequence the high price of pig feeds. These are events entirely beyond the control of local stakeholders and in part are a direct, if perhaps unintended consequence of political actions (e.g. to mandate subsidised ethanol production) by other key players in the global grains market.

In contrast, local demand for pig feeds has been diminished by the erosion of profitability amongst our customers which has seen a number of producers either leave the industry or scale back production in the hope of future improvements. The high value of the Australian dollar has made imports relatively less expensive than the local product and limited the opportunities for further expansion of our own pigmeat exports. We now have the curious situation where the national *per capita* consumption of pork is increasing but local production is in decline, with danger of total collapse.

Closer to Home

Better Blend Stockfeeds is a family owned and operated company employing around 30 people directly in stockfeed manufacture and supply. It is part of a group of companies involved in grain trading, grading and packing for domestic and international markets with a combined annual turnover in excess of \$100M, providing regional employment for more than 70 people. Better Blend Stockfeeds is a member of various industry bodies including the Stock Feed Manufacturers Association. It has invested heavily in feed manufacturing technology to provide the highest standards of quality assurance and processing biosecurity in support of its customer base. It is also a Supporting Partner of the Pork CRC and as such is actively involved in programmes to enhance feed conversion efficiency, to reduce the cost of pig feeds and improve the international competitiveness of the Australian pork industry.

Better Blend Stockfeeds services piggeries in SE Queensland and Northern NSW with combined production of around 8,000 sows. This represents an annual production of approximately 50,000 tonnes of grains, protein meals and manufactured pig feeds. The production of pig feeds remains around 60% of our business and the profitability (or viability) of our customers can be gauged directly from the following observations of our business. In the two year period from November 2005 to the present, we have lost approximately 45% of our customers taking bulk feeds, representing around 17% of our previous bulk pig feed market. While these were predominantly smaller producers (less than 200 sows) none are likely to return to the industry. Making the situation worse, they represented a significant proportion of the profit we drew from this sector of the market. The situation is similar for our bagged pig feed market. Since November 2005, the number of customers we service in this sector has declined by 59% with a 10% reduction in sales volume leading us to reduce our staffing in support of this market by around 16%.

Changes in Industry Structure and Operation

Changes in feed costs, the level and proportion of pigmeat imports and in the number of producers (number of sows) in the pig production industry are well documented in materials circulated by Australian Pork Limited and other industry bodies. If this trend is allowed to continue unchecked, Better Blend, like the pigmeat producers we service, faces "a death by a thousand cuts". Uncertainty about the future viability of the pork industry is influencing the overall confidence of both producers and associated industry stakeholders. Fewer producers means increased competition amongst feed suppliers for the business that is left - leading to operating margins across the stock feed industry that in themselves do not favour re-investment or any great sense of security. For us this has had unforeseen consequences in the ability to attract and retain staff, particularly in competition with other more profitable industries like mining and engineering.

A lack of opportunity in the pigmeat industry in turn limits our ability to withstand shocks in other industries as well. For example, recent adjustments in the feedlot cattle industry has seen that sector also contract rapidly – again with a direct impact on our business. A lack of flexibility is further reflected in the consolidation that has occurred in the stock feed industry. Since 2005, a further 4 feed mills in our distribution area have been absorbed by other larger feed mills – this structural change is not likely to be reversed in the short-term and in the longer term must itself be questioned as it will inevitably reduce choice and competition for those pig producers that remain in the industry.

Another aspect of the current difficulties experienced by the pigmeat industry that has a direct bearing on our activities is that we have shed a number of customers (that may or may not have gone to alternate feed suppliers) over credit terms. We have taken the position that we are not a bank and are unwilling to provide extended credit in the current environment.

Suggested Actions

There is clear evidence that progressive increases in the import of pigmeat experienced over the past 2 years have contributed to bringing the domestic pork industry to an almost untenable position. Circumstances have reached the point where reduced sow numbers, reduced producer confidence and reduced investment are now having deleterious flow on effects to related industries across regional Australia. It would seem imperative that safeguard measures be introduced immediately to restrict further imports and the Commission review other options available to avoid further long term damage not just to the pigmeat industry – but also the allied industries that service it. We favour the implementation of a quota system, as is applied to Australian beef exports to Japan and Korea, rather than any kind of tariff. The latter may be misunderstood by other trading partners affected by our free trade agreements.

Actions to complement the work of the Pork CRC to alleviate the impact of changes in the price would include a review of Pork CRC funding to make up any shortfalls arising from reduced access to industry funds and a re-direction of research efforts to focus on the impact of feed manufacture and feed processing on feed conversion efficiency. This would immediately assist approximately 50% of pig producers using manufactured feeds – providing a modest but significant benefit of around \$6.5M annually.