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Pigmeat Safeguards Inquiry
Productivity Commission
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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 Burnett Pork Alliance Pty Ltd to the Productivity Commission's Safeguards Inquiry into the Import of Pigmeat.

In this submission, we wish to address the following matters;

- Imports are injuring the Australian pig industry and as such, appropriate provisional safeguards should be implemented to stabilize the industry;
- Grounds exist for a Productivity Commission recommendation to implement provisional safeguards and general safeguards;
- An implementation of provisional safeguards and general safeguards would not;
 1. Be a disincentive for the industry or for our company to adjust; or
 2. Inhibit the international competitiveness of our industry; or
 3. Impact negatively on consumers in terms of price increases; or
 4. Slow our company or industry restructure.

We have evidence of the actions already taken by our company to manage import pressures. We have comparative evidence to show that our company 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 our continued efforts to restructure our operations, imports are depressing 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 businesses 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 Email;

Yours faithfully,

Malcolm Ansell
CEO Burnett Pork Alliance Pty Ltd.

Burnett Pork Alliance Pty Ltd.

Company profile;

This company was established in 2000 as part of a supply chain between pig producers, a meat processor, and a small goods manufacturer.

The company has 3,700 sows producing approximately 80,000 pigs per year. The weaners produced are grown out on contract in the Burnett area of Queensland.

Capital investment in the organization is valued at \$9M for the breeder herd, and \$9M invested by the contract growers.

The organization employs 30 staff plus 8 contract growers.

Marketing;

The company markets its pigs primarily for the Australian domestic market, with approximately 10% produced for export markets.

To meet the specifications for the Australian domestic market, BPA has decreased the slaughter weight of pigs and in conjunction with our genetic supplier, decreased the back fat measurement of slaughter pigs.

These changes have enabled BPA to meet the tighter market specifications, however lighter pigs and a reduced P2 measurement increases the cost of production. The meat market has been unable to respond with increased prices due to competition from imported meat.

Production; BPA

Production performance.

	2002/03	2006/07
Pigs weaned per sow per year	18	22

Cost of production – weaners – based on “Earnings before tax” of the breeder herd.

	2002/3	2006/07
Cost of a 7 week old weaner	\$92	\$71

Production has increased through investment in equipment to improve the environment within the sheds, staff training, staff performance bonus systems, improved reporting systems for key performance indicators, quality control, and improved health status of the breeder herd.

Increasing production levels further by increasing the number of pigs weaned per sow per year, will not rectify the current losses. Even if it was possible for BPA to increase production to 24 pigs weaned per sow per year, it would not solve the current situation.

Current Performance	Proposed Performance	Reduced cost of Production
22 weaned per sow per year	24 weaned per sow per year	8 cents per kg sold

Financial position going forward.

In spite of the improvement in herd performance, BPA is budgeted to have a less favourable operating outcome in 2007/08. The difference between 2006/07 and 2007/08 is estimated at one million dollars, making it necessary for the company to be supported by its bankers and shareholders.

This is due to the increased feed costs and the inability of the pig meat markets to absorb the increased costs largely because of imported meat.

Import Figures

Percentage of imported pig meat of the total processed pork in Australia has gone from 32.92% in 02/03 to 67.09% in 06/07. (APL)

BPA's production is approximately 65% fresh pork market, another 25% of production goes into the processed market and 10% export. This has been a long term strategy for BPA, as our production is part of a supply chain which includes a meat processor and a small goods manufacturer.

The fresh pork market has changed in recent years with the average weight declining and the back fat allowable also declining. This has added to the cost of production, and has required changes to the type of genetics used in the breeder farms.

Current situation feed prices and pig prices.

The tables below show the difference in feed prices over the last 12 month period and the pig price over the same period of time for Burnett Pork Alliance.

If Australian pig producers were receiving pig prices equal to that of November 2006, then the current short term affect of drought would be minimal. The main cause of the current low prices of pig meat relative to costs is definitely imported product.

Feed price

November 2006	November 2007	Difference - cost per pig
\$328 per tonne	\$456 per tonne	Increased feed cost of \$31 per pig

Pig Price;

November 2006 prime price	November 2007 prime price	Price variance per pig- 78kg
\$2.95 kg dressed wgt	\$2.40 kg dressed wgt	Decreased sale price of \$43 per pig

Based on open market price grids available to BPA.

This highlights that the biggest impact on the BPA business is that the price of pig meat did not increase in the second half of this calendar year as is traditionally the case. This again is due to the large stocks of imported meat still in storage in Australia.

Grain Price;

Sorghum	Aus.Domestic Price. November 07	Export Parity Price Nov. 07	USA domestic Corn price in Aus \$. Nov.07	Variation, Aus.Feed Price vs American Price Per pig
	\$380	\$220	\$180	\$62

Sorghum grain and corn are interchangeable, therefore the price comparison between feedgrains in Australia and America are commonly done using sorghum vs corn.

The current shortfall of feed grains in Australia is certainly increasing costs to intensive livestock producers. The \$200 difference between the price Australian producers are paying and our American counterparts is worth \$62 per pig. (Based on herd FCR @BPA of 3:1 liveweight and dressing % of 76).

This highlights the need for feed supplies to be available at competitive prices to maintain viability of Australian industries. In times of extreme circumstances imported pig meat denies recovery of additional costs of the Australian product.

Affect of current circumstances;

Drought in Australia, plus a worldwide downturn in grain stocks and low pig prices has negated profitability for Burnett Pork Alliance. The effects of the current drought may be the worst experienced by intensive livestock producers, however we have been able to weather past droughts. However on current import volumes and with production costs exceeding sale prices, the downward adjustment in production is not being realized through any increase in the price of pig meat.

The current and continuing exceedingly high volumes of pig meat imports is contributing to an excess supply and high inventories. For example, imports have influenced the natural supply and demand ratio for leg hams, leading up to the Christmas period. The large stocks of pig meat currently in cold storage in Australia has placed a cap on the demand of Australian produced pig meat.

Has the pig industry a future?;

The Australian pig industry has had profit margins reduced for a long period of time, due to imported pig meat, however as discussed above, actions have been taken to improve our competitiveness. Nevertheless these actions are medium term in that they take some time to be realized on the bottom line: as a result most producers are forced to rely, in the interim on the depreciation figure of their businesses to complete maintenance and repairs and for their own living expenses.

This means that the Australian pig farmer has very little to reinvest into new technology, environmental management and improved facilities for pigs, including animal welfare and this picture is looking even more daunting when confronted with the current import volumes. Any future efforts and investments by farmers to continue to increase productivity and reduce costs on farm will be severely curtailed.

The long term viability of the pig industry depends upon its ability to meet legislative requirements in environmental management, new animal welfare requirement over the next ten years, plus research and development and building of new facilities. Imported pig meat is taking away the future of this industry by cutting its ability to fund any of the necessary projects to achieve these required outcomes.

Because of reduced profitability in the industry, there is a lack of young people being retained in the pig industry and this is a high risk factor in determining long term viability.

Subsidies;

There are many reports available on the highlights of the USDA's 2007 farm bill proposals, yet the Australian authorities refuse to recognize that American primary producers are subsidized with American tax payers money.

Mike Johanns, US Secretary of Agriculture is quoted saying of the proposal "These proposals represent a reform-minded and fiscally responsible approach to making farm policy more equitable, predictable and protected from challenge."

A sample of highlights reported;
"Ensure a strong safety net for producers."

"Reduce gaps that currently leave producers without a safety net in low yield years."

"Increase direct payments to provide a more predictable safety net that will withstand challenge."

Another highlight;
"Fight trade barriers and expand involvement in world trade standard setting bodies."

With the might of the American government making policies to protect their subsidies from challenge and at the same time fighting trade barriers and influencing world trade standard setting bodies, how can individual Australian farmers find evidence to support the subsidized produce, argument? The Australian authorities are unwilling to genuinely assist Australian producers to address the American and European subsidy culture.

The EU has again reintroduced a Private Storage Aid Scheme (October 2007) for its pig producers to manage excess of pigmeat in that market and the substantial cost increases due to the increase in feed costs. The scheme will include 100,000 metric tones of pork to be stored with subsidy from the EU for a period up to five months. After this time the pigmeat can be sold in the EU or international market. This scheme shores up the pigmeat prices in the EU and compensates their pig producers – call it what you will but this is a subsidy arrangement which ultimately distorts the international pigmeat market and indeed provides support for the continued importation of pig meat which does not reflect its true cost of production.

Time Frames;

The current crisis can not be fixed with short term solutions. While a temporary safeguard such as an imposed tariff on imported pig meat for a period of 200 days would provide welcomed relief, it would be insufficient to turn the tide and provide the necessary breathing space that is required to continue improving our productivity and competitiveness. After the 200 day tariff period, the importation of subsidized meat may again strangle the domestic industry. The production planning for piggeries is over 280 days, from mating a sow to selling the offspring. A general safeguard measure is also required with a tariff introduced for a four year period and successively reduced each year to enable the industry to get back on its feet.

Public Interest;

Australia's food security system, that is, security of food supply to all Australians if external events prevent food being transported between countries, is in the same class as third world countries. Australia is heading down the path of dependency on imported produce and this could have some short term cost benefits, however the risks have not been taken into account of importing exotic diseases, food quality, and long term food costs (which will be much higher once Australia is food dependant upon other countries).

The increasing population density of both humans and livestock globally will certainly increase the risks associated with pandemic diseases and our dependency on imported products will make control measures more difficult.

The current system does not take account of "food miles". The cost to the environment by transporting imported produce such large distances.

Product Labeling;

It is impossible to identify which meat products are made from solely Australian produced pigs. Correct labeling would allow Australian consumers to support the local industry.

Current labeling only states the obvious, "made from local and imported product." Consumers are none the wiser because of current labeling standards.