



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

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Prepared by the **CHM Alliance Pty Ltd**

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For

**Cameron Pastoral Company**  
**DA Hall and Company**  
**McLean Farms**

Excellence in Pork

## Introduction

This submission has been prepared by the CHM Alliance Pty Ltd to provide further evidence that an unforeseen, sudden and sharp surge in the imports of frozen pig meat is causing serious material injury to our domestic businesses and threatens to cause irreversible damage.

The Australian pork industry has demonstrated in recent years that it can be proactive through industry restructure and research initiatives to remain internationally competitive, but no amount of foresight would have prepared this industry for the current onslaught of imports of frozen pig meat and the subsequent impact this has had on the domestic price. Even without the pressures exerted by on-going drought and the current high value of the Australian dollar this impact is unsustainable and provisional safeguard measures and further safeguard action is required to provide the industry with the means to again address this issue on a proactive manner.

This submission provides supporting evidence from members of the CHM Alliance that:

1. They are producers of 'like' or 'directly competitive' goods;
2. They have suffered serious injury as a result of an unforeseen and rapid increase in the import of frozen pig meat;
3. Provisional and on-going safeguards are required immediately given injury sustained to date and the fact that decisions must be made today in relation to the future operations of CHM Alliance businesses over the next 12 months.

## Background

The CHM Alliance comprises five organisations including Cameron Pastoral Company, the DA Hall Group, McLean Farms, PIC Australia and PIC New Zealand. In total, the Alliance has direct interests in more than 16,000 sows in Australia and New Zealand. The members of The CHM Alliance have combined their strengths and resources in order to implement development programs designed to continually improve productivity and maintain their competitive edge. Existing programs include staff training and development, quality assurance, benchmarking and science and technology.

As well as being a major producer of pork in Australia and New Zealand, the CHM Alliance has significant inputs into the Australasian pig industry in the following ways:

1. **Pig Breeding:** Members of the CHM Alliance own PIC Australia Pty Ltd and a significant share of PIC New Zealand Pty Ltd, the largest and most integrated breeding operations in each country.
2. **Training:** The CHM Alliance Pty Ltd is a Registered Training Organisation with 284 enrolments in its stockperson training program and 81 enrolments in Certificate III in Agriculture (Pig Production) making it one of the most significant training organizations in the Australian pig industry. This RTO is now also offering training in Certificate IV in Business (Frontline Management). As well as core members, the CHM Alliance offers training services to affiliates in NSW, Queensland, South Australia, Victoria and Western Australia.
3. **Research:** As well as running its own Science and Technology program with over \$1 million in current research projects, the CHM Alliance is a core participant in the Pork CRC. The CHM Alliance was the applicant for this CRC on behalf of the Australian pork industry.

4. **Policy:** Members of the CHM Alliance contribute to the Boards of Australian Pork Ltd and the Pork CRC Ltd.

Key statistics associated with the Australian businesses within the CHM Alliance include:

1. **Production locations:**

Goondiwindi, Qld; Millmerran, Qld; Pittsworth, Qld; Grong Grong, NSW.

2. **Total sow numbers:** 13, 382
3. **Total staff:** 176 (plus contractors and their families)
4. **Net pigs produced per year:** ~265,000
5. **Pork produced per year (tonnes):** ~30,200
6. **Total feed used/year (tonnes):** ~97,000

### **Have imports increased?**

**Yes.** The submission to the Productivity Commission by Australian Pork Ltd has clearly demonstrated that imports have increased in absolute terms and relative to production, with US imports augmenting rather than replacing Danish and Canadian imports being noteworthy. No further evidence is warranted in this submission.

### **Was the increase in imports the result of unforeseen developments and the result of [WTO] obligations incurred?**

**Yes.** Again, the submission from Australian Pork Ltd to the Productivity Commission has adequately addressed this issue on behalf of the industry.

### **Defining the industry: who are producers of 'like' or 'directly competitive' goods?**

***Members of the CHM Alliance are clearly producers of 'like' or 'directly competitive' goods because of the way pigs are sold in Australia and because of their level of vertical integration.***

In addition to the pork production facilities owned and operated by Cameron Pastoral Company, DA Hall and Company and McLean Farms, respectively, they collectively own a share of the Swickers abattoir and boning operations in Kingaroy. The majority of pigs from these pork production operations are consigned to Swickers and the risk associated with the carcass is maintained by the production business until they are "over the hooks" and have passed inspection. If a carcass is condemned for any reason (bruising, skin damage, disease) then the cost of the condemnation is borne by the pig producer.

There is no mechanism within the CHM Alliance integration for anything other than whole pigs to be sold, and these whole pigs are the only source of 'like' or 'directly competitive' products. In terms of exact cuts, the CHM Alliance pork production levels would include the equivalent of:

- ~3,300 tonnes of boneless 97 CL leg primals
- ~2,800 tonnes of boneless belly

As members of the CHM Alliance can only sell whole pigs at a single value per kg of dressed weight there is no mechanism to compete with highly undervalued cuts and the overall affect on average pig price. For example, importation of 97 CL leg primals for \$3.00/kg equates to a whole pig price of \$1.78 – even at the highest level of international competitiveness, it would be very difficult to maintain a cost of production below this.

**Has the industry suffered, or is likely to suffer, *serious* injury and are increased imports *causing* serious injury?**

*Yes – Like other participants in the Australian pig industry, members of the CHM Alliance have suffered serious injury as a result of unforeseen and rapid increases in the levels of imported frozen pig meat and the subsequent effect on domestic pig prices.*

Like many vertically integrated producers, the CHM Alliance members service a number of pig/pork markets and they need to do this to extend their risk base and optimize their return in a very volatile market place. The break up of markets for CHM Alliance members would be similar to the following:

- Retail (pigs contracted to supermarkets such as Coles and Woolworths)
- Export/value adding (pigs for export markets such as Singapore or for the development of premium products)
- Carcase (whole carcasses for butchers and other trade)
- Plant/processing (remainder subject to the spot market)

A disproportionate return in any one of these markets can have a very significant effect on overall profitability and viability even though any one market represents between 15 and 40% of the total return.

We can use these markets and a number of ratios to demonstrate very clearly that imports are causing serious injury to members of the CHM Alliance. The following should be noted:

1. The **retail price** is more reflective of the fresh meat market in Australia given it is the source of pigs for fresh sales in supermarkets such as Woolworths and Coles.
2. The prices used in the ratios below represent average net returns per kg from a subset of CHM Alliance piggeries and reflect the proportion of pigs that fall outside the prime market, not just the price offered (this is

very important when considering the overall impact of a reduced price for prime pigs).

3. Because retail prices often fall under negotiated contracts, they are less likely to be influenced by imports and tend to be more reflective of inputs costs (such as feed) and local supply and demand.
4. Import figures were supplied by Australian Pork Ltd and are based on monthly imports of US and Canadian leg meat and Danish middles only.

By comparing the ratio of the average **plant price** received per kg of pork sold with the average **retail price** received per kg of pork sold (Figures 1 and 2), we note the following:

1. As imports have increased, the ratio of the plant price to the retail price has significantly reduced, getting as low as 70% of the retail price on offer.
2. If we dissect out the imports of US leg meat, there is a very clear relationship between import levels and subsequent plant:retail price ratios and the subsequent profitability of CHM Alliance businesses. Most notably, the very sharp rise in the import of US legs in December 2006 and January, 2007 resulted in the significant drop in the ratio between plant price and retail price that commenced in January, 2007.
3. The impact of the high levels of imports during 2007 can be seen by comparing the ratio of plant:retail price in November 2006 (0.89) with the value in November, 2007 (0.77).

Further to this, if we accept that the retail price is more reflective of the fresh meat market and we plot the ratio of feed costs to average price received per kg of pork sold (Figure 3), we can see that as imports have increased, the following has occurred:

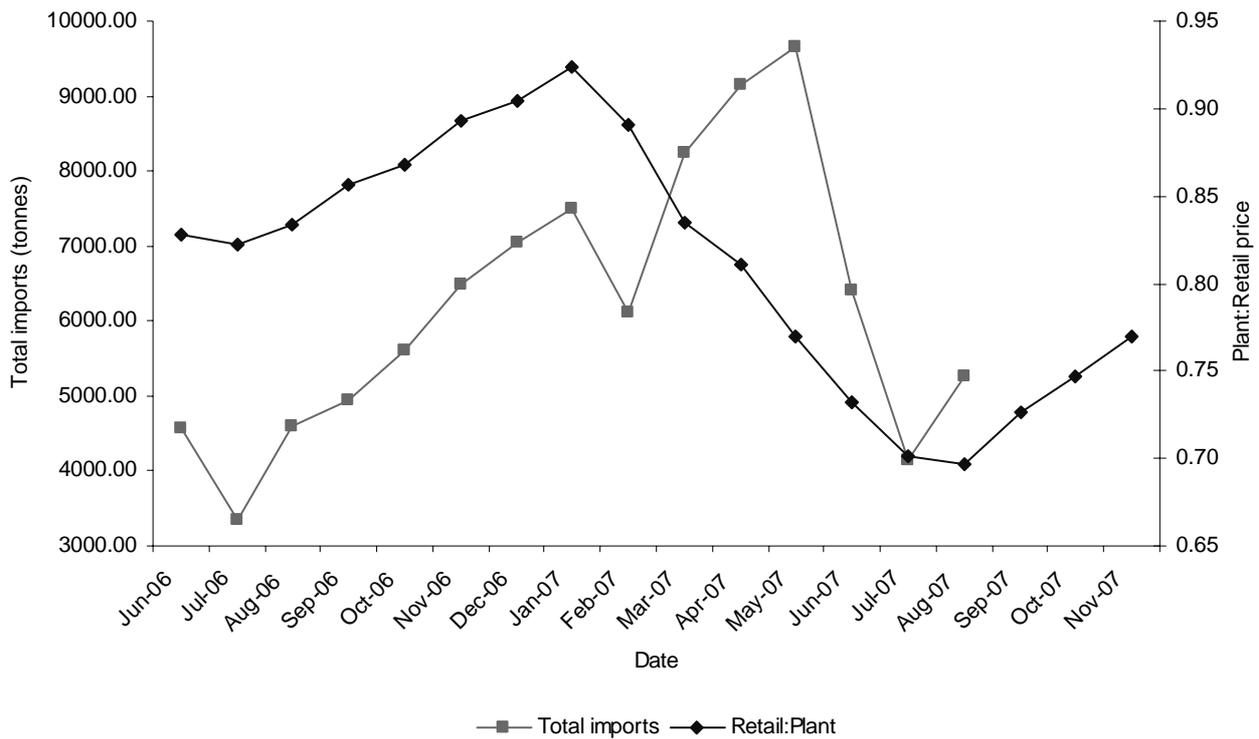


Figure 1. Ratio of average plant price per kg of pork sold to retail price per kg of pork sold versus total imports of US and Canadian leg meat and Danish middles between June 2006 and November 2007.

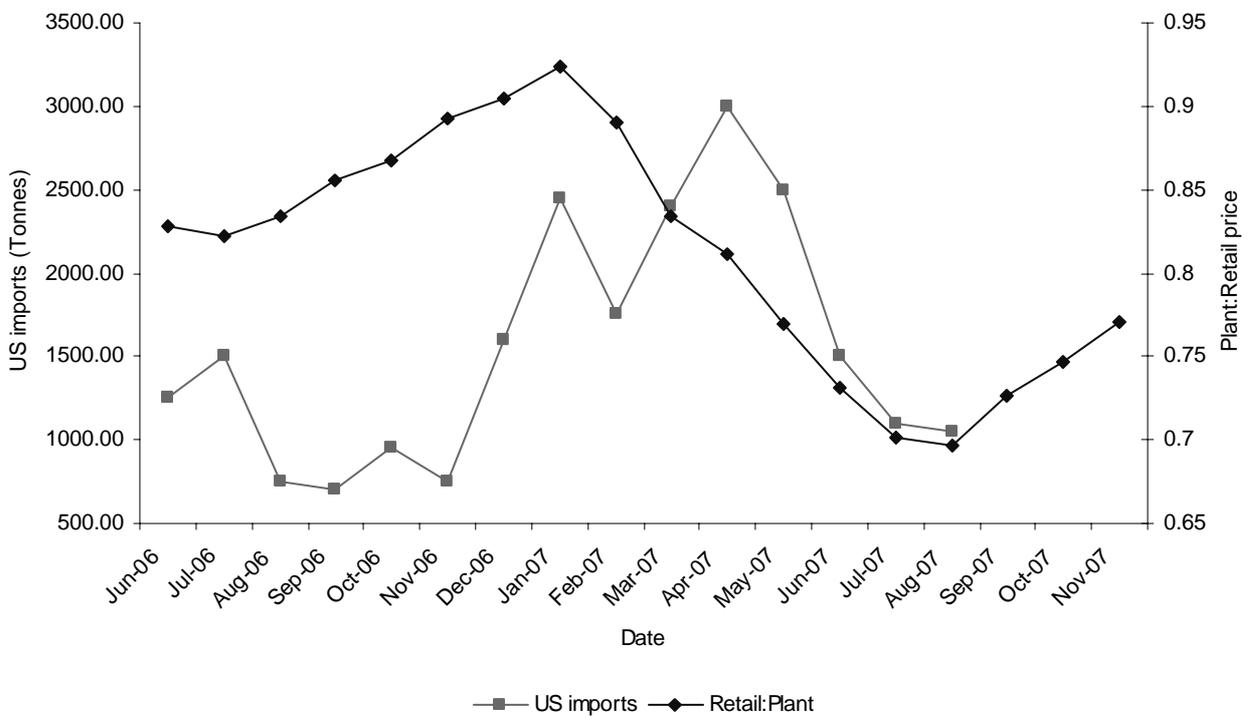


Figure 2. Ratio of average plant price per kg of pork sold to retail price per kg of pork sold versus total imports of US leg meat between June 2006 and November 2007.

1. The gap between feed:retail price and feed:plant price has significantly widened.
2. There are notable peaks in the feed:retail price ratio that reflect increases in retail price at times when there were significant increases in cereal costs (March, April and May, 2007) and protein sources (July and August, 2007) while the feed:plant ratio continually decreases.

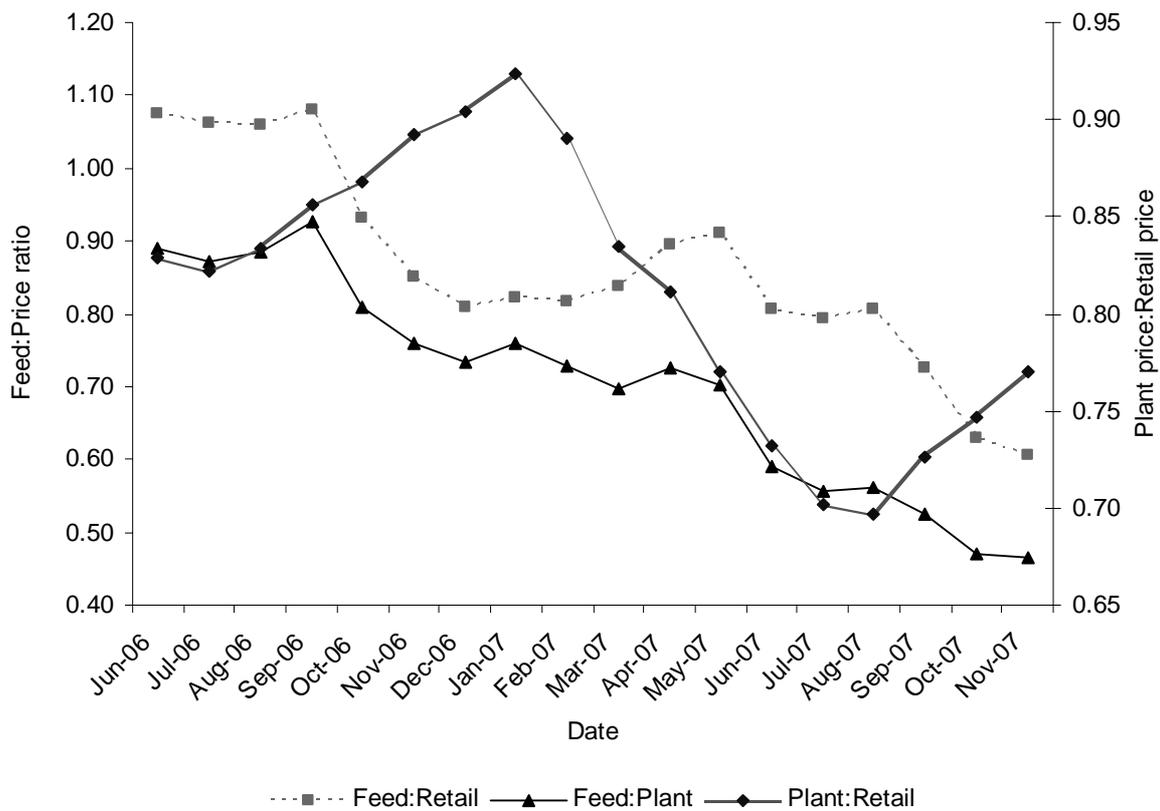


Figure 3. Ratio of average feed costs per kg to the average retail price received per kg versus the ratio of average feed costs per kg to the average plant price received per kg.

The suppression of the plant price has follow on impacts on the prices offered for export pigs and to a lesser extent the retail price.

Based on overall returns, the impact to CHM Alliance members is **30 to 50 cents per kg of pork sold.**

As independent businesses, the losses incurred by members of the CHM Alliance can only be sustained for a limited period before rationalization must commence. Most members of the CHM Alliance operate at a scale that must be maintained while the business is on-going or ceased in its entirety. Hence the immediate impact of the losses resulting from pig production is not a reduction in sow numbers, employment numbers, sales levels or market share, but a loss in equity in the overall enterprises. The flow on effects from sustained losses in the pig production businesses (which are highly capital intensive) could have much wider consequences for the rural economies supported by members of the CHM Alliance.

As for all members of the Australian pig industry, it must be noted that decisions relating to pig production must be made **9-12 months in advance**. That is, the nature of production is such that at least 9 months of production will be maintained from the day matings stop. Given the sustained losses that have already occurred as a result of highly suppressed prices over the last 6 months, **immediate action** is required if major players in the industry are to remain in business given they must make financial and business decisions today for their projected operations in August, 2008. Without provisional safeguards, there is a real risk that many significant producers, including members of the CHM Alliance, will have no choice but to cease production in early 2008 to preserve their remaining equity and other primary production operations.

Members of the CHM Alliance have benefited from developing aspects of their pig production businesses on a collective basis because it provides some economies of scale – a major driver of profitability in the pig production business. Loss of sow numbers through the exit of one or members collectively hurts the Alliance through reduction in capacity to:

1. Purchase grain and other feed ingredients;

2. Efficiently process and sell pigs - Operations of abattoirs such as Swickers where reduction in slaughterings by 1000 pigs per week could cost in excess of \$AUD0.5 million EBIT per year without considering the effects on shift numbers and average slaughter costs.
3. Maintain and re-invest in infrastructure.
4. Maintain employment levels and critical mass in remote rural areas.

### **What safeguard measures would remedy serious injury?**

Members of the CHM Alliance endorse the safeguard measures suggested in the submission made by Australian Pork Ltd and the basis of the calculations used to establish these measures.

In addition to safeguard measures, the CHM Alliance believes that additional support is required from Government to ensure the following:

- 1. Growth of the Australian pork industry and maintenance and enhancement of the existing infrastructure.***

To achieve this it is essential that the domestic fresh pork market is maintained through maintenance or improvement of the current health status of the Australian industry and a tightening of all quarantine and importation protocols. This is highlighted by the failure of many of the existing importation protocols for horses culminating in the recent equine influenza outbreaks in Australia. If the industry is to grow, there is also a need to grow our export markets, particularly in Asia where Australia represents less than 1.5% of all imports into the region. Introduction of export assistance and market development programs in the region would assist the establishment of these markets.

## *2. Ongoing improvement in the international competitiveness of the Australian pork industry*

The establishment of the Pork CRC and the continued investment into research and development must be maintained to enhance the international competitiveness of the Australian pork industry. In particular, we need to focus on dedicated feed grain supplies and to improve access to feed grains. Further investment in feed grain breeding programs and promotion of non-traditional grains in traditional grain growing regions is a priority. In addition to a focus on feed grain supply, enhancement of drought relief programs for pig producers must be considered, as well as equity rebuilding programs given the injury that has been sustained to date as a result of imports and depressed domestic prices.

### **What are the impacts on other parties?**

The CHM Alliance supports the analysis and recommendations made in the submission from Australian Pork Ltd in relation to impacts of provisional and on-going safeguards on other parties.