Productivity Commission

Australian Pigmeat Industry Inquiry

Submission

Tasmanian Island Pork Alliance

1. SUMMARY

This submission has been prepared by Tasmanian Island Pork Alliance, representing 14 pig farmers in Tasmania and is supported by the Tasmanian Farmers and Graziers Association and the Department of Primary Industries Water and Environment, (support letters forwarded separately).

The Tasmanian industry has stabilised after a period of low profitability brought about by low pig prices, high grain prices and the lack of ability to capture economies of scale. The number of farms has stabilised and, similar to the pig industry internationally and nationally, the number of producers has declined to while the average herd size has increased. There are around 30 producers with 10 major commercial producers, producing around 50,000 pigs p.a.

The current farmgate value of the industry is estimated at around $8 million with 60 Full Time Equivalents employed and a further 175 jobs dependent to varying degrees on the industry.

The failure of the processing and smallgoods business Blue Ribbon Meats brought about a fundamental change in the industry, moving from largely bacon pig production to fresh meat production, mainly direct to supermarkets.

Profitability in the industry is currently positive but has been through a period of loss and break even. The industry is not generating sufficient profit for continuing capital improvement or the attraction of new entrants to the industry.

The major smallgoods manufacturers in Tasmania use little or no local product but rely on mainland or imported product as raw material.

There is little room for expansion of production from the position without increased take up of local product for manufacturing or increased demand for fresh product. The State is currently self sufficient in pork production with supermarkets bringing in product for specials and to top up supply. If there was a change in policy by supermarkets that resulted sourcing the majority of product from the mainland states, the local industry would not be able to compete.

There are no specialised or export accredited pig processing works in Tasmania leading to lower efficiencies and recovery rates relative to mainland specialised plants.

Although local grain production is increasing, the industry is heavily reliant on efficient and quality supplies of grain from the mainland. This trade is dependent upon continuation of the Tasmanian Wheat Freight Subsidy and the Tasmanian Freight Equalisation Scheme. The dependence on mainland supplies means that the industry is unable to get access to opportunistic supplies of cheaper grain.

Industry representation and co-ordination is currently restructuring with the recently formed alliance of producers, Tasmanian Island Pork Alliance, seeking affiliation with the state farming body Tasmanian Farmers and Graziers Association.

Current local industry issues include; the economic and health threats from subsidised imports, the continuation and improvement of the Tasmanian grain freight support schemes, the review of the Code of Practice for the Welfare of Pigs, the efficiency of pig processing operations and the development of opportunities to capture greater margins for producers through greater product value adding.

Opportunities exist for greater co-ordination of production and marketing to develop economies of scale and to market local branded product. However producers need assistance in the co-ordination and development of group activities.

2. CURRENT TASMANIAN SITUATION

The demise of Blue Ribbon Meats in 2002 has had significant repercussions through the production and processing industry. Pig producers were significant amongst the creditors of the failed company and with the collapse of Blue Ribbon Meats, a series of fundamental changes have occurred in the industry.

Improved transport between the state and the mainland has allowed the importation of not only meat and processed products from both interstate and overseas, but also the two way trade in live pigs for slaughter. With these globalisation effects, national and international markets more directly affected Tasmanian producers.

Another fundamental change that has occurred is that Blue Ribbon is now a specialised smallgoods profit centre trading on the goodwill of the well established “Blue Ribbon” brand, buying raw material from its associated Melbourne company Perfect Pork and from any other competitive source of supply of specified product, including internationally. Perfect Pork operates a slaughter and processing site at Altona in Melbourne.

When the Blue Ribbon kill floor closed, the rate of pig throughput at Devonport City Abattoir (DCA) almost tripled particularly for Woolworths. Tasmanian Quality Meats (TQM) at Cressy also rapidly took on a pig killing a capacity and is killing pigs for Coles Supermarkets. TQM had leased the original Blue Ribbon pig floor but has now relocated again to the Cressy site.

During 2001, changes occurred in the supermarket sector as the Roelf Vos and Purity retail names have been absorbed into the Woolworths “Fresh Food People” brand with more centralised and direct purchasing through the development of relationships with farmers. Woolworths have also diversified their direct supply base, taking on the output of pigs that were previously going into heavy bacon production.

Coles Supermarkets have also been developing direct supply lines with pigs killed at TQM.

Fresh pork production now has good support from the supermarkets as they are taking heavier pigs than the traditional trade pork range. These are now around 55kg carcase weights at prices that are producing acceptable returns with the view to developing long-term supply relationships. The state is largely self sufficient in fresh meat supply with interstate product being brought in for specials and to up supply

South Pork is now the major pigmeat wholesaler in the state, handling around one third of the pigs killed. South Pork services butchers, smallgoods operators and independent supermarkets and provides top up supplies to other meat wholesalers.

Centralised purchasing systems operated by Woolworths particularly have resulted in Tasmanian processed products coming under greater competition from mainland product as central purchasing officers set prices which, according to Tasmanian processors, they are unable to match because of higher production and input costs in Tasmania. Many of these costs are due to the lack of economies of scale and possible due to inefficiencies of plant, equipment, marketing and management practices.

Smaller specialised processors have made strategic decisions not to compete in the price competitive and high volume supermarkets, unless on request from a supermarket. These smaller operations have developed quality and niche markets, both in Tasmania and interstate.

DCA recently sold the Hobart Wignalls Smallgoods operation to Tasma Smallgoods. This may increase the usage of local pigmeat if smallgoods production increases. However, Tasma has in the past purchased pig meat on international markets according to price.

3. NUMBER OF UNITS AND SOW NUMBERS

The structure of the Tasmanian pig industry is a reflection of any other state or national industry structure with the 80:20 rule applying, approximately 80% of the production from 20% of the producers. There are now around 3000 sows in the State, many on smaller (less than 50 sows) part time units. There are currently around 30 herds of varying commercial scale and operation in the state.

Currently, there is a group of 10 specialist professional producers that total around 2000 sows. There is a second group of 11 units that are either smaller family businesses in development or are run in conjunction with other enterprises or off-farm activities. The third level of production (the balance of the productive sow numbers) includes those who are starting up or running a small numbers of sows or growing pigs as part time supplementary or opportunistic operations.

The returns in the industry are currently not sufficient to attract major developments or new entrants to the industry.

4. VALUE OF PRODUCTION AND EMPLOYMENT

The estimated farmgate value of production for 2002/03 was $8.1 million at an estimated 12 month average value of $2.60/kg and carcase weight of 62.2 kg. It is expected that the state produced around 50,000 pigs for 2003/04 with the value of production only marginally increasing to around $8.25 million.

(Note: these values of production are approximately 60% of the value of the industry during the 1980’s).

It is estimated that there are between 55 and 60 full time equivalent (FTE’s) employed directly on farms. Approximately 40 people are employed full time together with another 25 –30 deriving partime income from pig production. Using a conservative multiplier of 3.5:1 to estimate further supply chain employment, there are likely to be a around 175 additional jobs dependent on the Tasmanian pig industry.

5. PROFITABILITY

There was a dramatic turn around in the profitability of pig production in the second quarter of 2002. The buoyant situation experienced in 2001 has not continued due to over supply on the mainland despite continuing export markets. APL estimated in June 2002 that prices had fallen by 25% since December 2001. Prices have since recovered but are still below 2001 levels.

The Tasmanian industry is currently receiving around $2.50/kg dead weight ($200/80kg unit) for heavy bacon pigs and around $3.20/kg dead weight ($144/45kg unit) for pork pigs. It is understood that suppliers to Woolworths and Coles are receiving 8-10% higher for heavier pork pigs. This reflects a degree of sharing of the wholesaler margins avoided by direct purchase on-farm

Coupled with the fall in prices have been the increased grain prices as a direct result of the drought. Although prices are now easing following record mainland harvests, the increased cost of grain had forced most producers into a break even or loss situation.

6. KEY ISSUES

External Competition and Health Threats
Tasmanian pig producers compete indirectly with pig producers on the mainland and internationally. Cooked pig meat and meat for further processing is readily accessible from Denmark and Canada. These products are consistently high quality and processors are able to purchase to exact specification and quantity.

The recent Import Risk Assessment for the import of pig meat recommends an easing on restrictions on pig meat imports. This will result in further competition for both mainland and Tasmanian pig producers. The national industry, through the representative body Australian Pork Limited, is appealing against any easing of the import restrictions on the basis of increased disease risks and the threat that they pose to the clean heath status of the Australian pig industry, particularly the potentially devastating Postweaning Multisystemic Wasting Syndrome (PMWS).

Much of the international competition is from subsidised production. OECD figures for 2000-2002 show that pig exporters in the EU received $US5.7 billion in subsidy support, representing 24 per cent of their total production. Despite this, Danish pork still enters Australia tariff free, while the United States and Canada place a 100 per cent tariff on Danish pork

The industry is also in competition with large mainland processors such as QAF Meat Industries, a large (60,000 sow) fully integrated production and processing operation based at Corowa in NSW. QAF are able to quit relatively small quantities of meat at discount prices with price and supply effects on the Tasmanian market.

Local Brand Loyalty
Increasing utilisation of boxed product from overseas and interstate is an issue as supermarkets reduce the number of butchers in store and local processors

purchase on price with little or no local loyalty apart from smaller niche market manufacturers.

Brand loyalty for local product is likely to be highly sensitive to price as Tasmanian product is difficult to segregate from interstate and imported product.

The recent announcement of the “Australian HomeGrown” brand initiative is welcomed by the Tasmanian industry as a basis for promoting local pork.

TWFS and TFES

The continuation of Tasmanian Wheat Freight Subsidy and the Tasmanian Freight Equalisation Scheme are constant issues that need to be managed to ensure that the level of support is maintained to provide the necessary competiveness and access to feed ingredients that the industry requires. Currently there are anomalies in the system that appear to favour containerised grain against bulk shipments of wheat

Animal Welfare

The existing Code of Practice for the Welfare of Pigs will be reviewed in 2004. Tasmanian pig producer Neil Atkins is a member of the Australian Pork Limited Consultative Group. This issue, if not sensibly managed, has the potential to force many pig farmers out of business if any changes are cannot be phased in over realistic time frames, bearing in mind the relatively long life of piggery infrastructure, the relatively low profitability of the industry and the fact that changes made for welfare reasons are unlikely to boost production or profitability.

The industry is insistent that any changes in practices must be founded on good science.

Operation of Devonport City Abattoirs

The long term survival of this processing plant is constantly under threat from environmental controls and the cost of meeting requirements. This abattoir is the major site for pig killing and processing in the state. The site is relatively inefficient in processing and recovery compared with specialised mainland abattoirs.

Industry Representation

With the continuing decline of herd numbers and the trend towards supermarket driven supply chains, funding for industry activities and representation is a major issue.

The industry has currently employed consultant Malcolm Cowan to facilitate an Industry Working Group, chaired by producer Alan Broomby (also previously TFGA Pig Division Chairman). This group was established to progress strategic objectives for the industry that were developed from the Pig Industry Review commissioned by Department of Primary Industries, Water and Environment (DPIWE) in 2002. These objectives include industry representation, improved productivity through training and information exchange, promotion of local product and wider industry liaison.

The Working Group has re established lines of communication with supermarkets and processors and has achieved a greater level of information sharing and unity amongst the major players in production sector of the industry.

The Working Group is currently determining an affiliation with TFGA in place of full membership and has developed an alternative group structure to provide technical services and support to the industry and affiliate with TFGA for wider industry representation. The DPIWE has financially supported the establishment of this now self-funding group. The group has recently adopted the name of "Tasmanian Island Pork Alliance".

This group of farmers has demonstrated that co-operative action and information sharing is possible amongst farmers but requires resources for facilitation and co-ordination. As an example, Tasmanian pig farmers again ran their highly successful pork promotion catering site at Agfest 2004, co-operating with two Award winning butchers and smallgoods manufacturers.

The Alliance regularly qualifies for funding from Australian Pork Limited for travel and group training funding.

Further advances, such as group purchasing, marketing and supply chain management are possible but will not occur without third party support. Greater development of alliances and group support may be the only way for the relatively small Tasmanian farms to gain critical mass and leverage to survive.

7. NATIONAL ISSUES

These include

- The continuing competition from imported product.
- Maintenance and growth of Asian export markets spingboarding through the success of the Singapore export program.
- Access to lower priced international grain supplies
- Increasing environmental control and management
- Increased concentration of the industry in corporate pig operations
- Continuing bedding down of the new R and D/representative/ .promotion body Australian Pork Limited
- Promotional campaigns to increase the market share of pig meat, particularly to younger consumers.

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