West Australian Pork Producers' Association

Submission to

Productivity Commission Inquiry

into the

Australian Pigmeat Industry

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CONTENTS

INTRODUCTION

This submission has been prepared with support from the WA Department of Agriculture.

The West Australian Pork Producers' Association (WAPPA), in conjunction with Australian Pork Limited (APL), represents the interests of the pork industry in WA, particularly the interests of producers. WAPPA delivers the best possible leadership, policy, advocacy and service required to maintain and grow a sustainable pork industry in WA.

WAPPA's Vision – to promote a growing, internationally competitive, innovative and sustainable WA pork industry and safeguard the interests of WA pork producers.

EXECUTIVE SUMMARY

- **WA's pork industry contributed $105 million (gross value/farm gate) in 2003/2004 to the WA economy and provided direct and indirect employment for 3000 people.**
- **WA sow herd of about 35,700 at June 2001 represents 12% of Australian herd.**
- **WA average herd size has risen from 50 sows a decade ago, to 100 sows.**
- **Number of producers expected to decline from 360 to 200 in next five years.**
- **Impact on production costs of any proposed changes to current regulations on dry sow stalls should be examined/reported on as part of this inquiry.**
- **Production costs will rise unless cost-competitive alternatives to antibiotics can be found and this should be a priority for research and development.**
- **Producers face increasing challenges to maintain high standards of individual farm biosecurity.**
- **Banning feeding of all animal products to pigs would decrease profitability by $60 per sow or 10%.**
- **Attracting/keeping quality staff is an issue which must be addressed.**
- **Imports to WA from Denmark (1,618 tonnes) more than doubled in 2003/04, but Canada was still the major supplier with 53% (1,846 tonnes).**
- **WA producers question if pork imported into Australia has been produced under similar quality assurance standards as the local product.**
- **Increasing carcass weights will reduce costs right through the supply chain, making the industry more globally competitive, provided it competes on a level international playing field.**
- **If Australia's pigmeat industry is being injured by imported product, a safeguard investigation is warranted to improve competitiveness.**

INDUSTRY STRUCTURE & REGIONAL DISTRIBUTION

WA's pork industry contributed $105 million in gross value (farm gate) in 2003/2004 to the WA economy, whilst also providing direct and indirect employment for 3000 people throughout the supply chain.

There has been significant industry investment, growth and expansion over the last 8-10 years, enabling consolidation of abattoirs and improvements in the quality of piggeries, particularly in housing design.

Statistics reveal the WA sow herd grew from 31,000 in 1999 to 35,700 at June 2001. At the time, there were 361 holdings with sows with a herd average of 100.

The composition of the sow herd was:

- **69 herds had 100 sows or more and these held 29,185 sows or 82% of the total WA herd.**

- **13 herds had 400 sows or more and these held 20,038 sows or 56% of the WA herd.**

WAPPA has identified the profile of pork producer members in WA:

Number of producers	Average number of sows
190	8
102	50
56	163
13	1541
Total No. of Producers: 361	Average all Herds: 99

The WA sow herd of approximately 35,700 at June 2001 represented 12% of the Australian herd.

The average herd size has rapidly increased from 50 sows a decade ago, to an average of 100 sows, which is large by international standards. This rapid transition leads to the quicker and more effective adoption of new technology. The structure of the herd has moved towards specialised breeder farms with contract grower farms taking animals through to market weights.

Sow herd numbers remained stable until late 2003, when producers were finding it difficult to trade profitably and a number considered their future in the industry. They made a decision to either exit the industry or reduce their sow herd.

This has led to a net sow herd loss of 3,750 since the beginning of 2004.

Two WA producers, Westpork and Wandalup Farms, contribute 34% to the current sow herd with a further six producers contributing 28% making the combined contribution of eight producers, 62% of the total herd compared to 13 producers making up 56% of the sow herd in 2001.

It is expected the number of producers will decline to approximately 200 in the next 5 years. Currently, 60% of the WA's pigs are produced from multi-site production systems.

Eighty per cent of production is from Large White x Landrace sows, although all major breeds are available in WA.

Pigmeat production in WA extends from Geraldton in the north to Albany in the South to Esperance in the Southeast - an area almost the size of the combined area of Victoria and New South Wales. Pigs transported from the Esperance region would take up to seven hours to reach the export abattoir, Geraldton five to six hours, with the balance of regions three to four hours or less.

Transport Costs for Baconer Pigs Average Weight 110/120kg

Distance (km)	Pigs per load	Cost per pig
150	**240**	**$2.91**
150	**360**	**$2.50**
280	**240**	**$5.41**
280	**360**	**$4.16**
350	**240**	**$5.83**
350	**360**	**$4.58**
400	**240**	**$8.33**
400	**360**	**$6.11**

Note: These are an average of the costs and were provided by two transport companies. The figures don't take into account the cartage contracts certain producers have with the transport companies.
It must also be noted that the cost can be higher for smaller producers who naturally do not need to regularly use the transport companies.

Types of Trailers Used

240	**Pig load**	**Triple Stock Crate**
360	**Pig load**	**B Train, known as a B Double in the Eastern States**

The number of people employed in the industry does not vary greatly with changes in ownership, consolidation or integration.

The number of pigs slaughtered in 2003/04 was 674,419, up 24% on the 542,585 head in 2000/01.The volume increase in tonnage was similarly up by 23% from 36,782 tonnes of carcass to 45,190 tonnes.

The increased output was created by efficiencies in production levels, however this has to be considered alongside the fact that a number of producers exited in the latter part of the 2003/2004 financial year, hence reducing the sow herd and production levels.

Average pig carcass weights have increased in the last 10 years and most of WA's top pig producers are now marketing on average 20 pigs per sow per year at 100 to 110 kg live weight (68kg to 75kg carcass weight). Carcass weights continue to increase, enabling the industry to take advantage of production and processing cost efficiencies.

These efficiencies have been created by the development of one export accredited abattoir (PPC/Linley Valley - an arm of the Craig Moyston group). In addition to PPC/Linley Valley, George Weston Foods, Del Basso Small Goods and D'Orsogna are also accredited pigmeat processors and exporters. PPC Linley Valley currently kills 90- 95 % of all the pigs slaughtered in WA. Three satellite abattoirs, Dardanup Butchering Co., Eastern Districts Abattoir and Pink Lake Abattoir slaughter pigs for the local market.

INFLUENCES ON INDUSTRY PROFITABILITY

Animal Welfare Issues

The pig industry is already scrutinised by animal welfare groups and this will increase over time. The common practice of housing dry sows in individual stalls is a particularly sensitive issue. The European Union has already introduced legislation banning the construction of new sow stalls and requires the phasing out of existing ones by 2013. Other aspects of intensive pig production systems are also under pressure on welfare grounds.

Multi-site production systems based on housing growing pigs in large groups on deep-litter (straw base is mainly used in WA) housing systems may have welfare advantages over conventional systems, but animal welfare is about more than straw bedding. The design and management of group housing systems will impact on physiological, behavioural and health indicators and there is a need for careful evaluation before improved welfare can be claimed.

Deep-litter systems are being developed for dry sows and are being promoted as welfare-friendly. While some success has been achieved, further research and development is required before deep-litter sow housing systems become widely accepted as a viable alternative to individual stalls. The Model Code of Practice for the Welfare of Pigs (The Code) is currently being reviewed by Government, with the assistance of the pig industry, animal welfare organisations, veterinarians and scientists. This review will address the issue of dry sow stalls. It is anticipated that the revised Code will be presented to the Primary Industry Ministerial Council in 2005. The pig industry can anticipate increased costs of infrastructure and staff training to cope with any proposed changes to sow stall use in the Code.

WAPPA recommends that the impact on the cost of production of any proposed changes to the current regulations on dry sow stalls should be examined and reported on as part of this inquiry.

Antibiotics

Intensive pig production often requires therapeutic and prophylactic use of antibiotics to counter enteric and respiratory diseases and maximise profitability. Globally, the threat of antibiotic resistance in the public health sector is driving changes to availability of antibiotics to all agricultural sectors, but particularly to the intensive animal industries. Australia's national management strategy for the minimisation of antibiotic resistance (JETACAR) has already reduced antibiotic availability to the pig industry. With the implementation of the further restrictions planned and "phasing out" of some antibiotics, the pig industry will need to investigate alternative strategies (such as vaccination, probiotics, management etc) or risk becoming less efficient.

While a global ban on therapeutic antibiotics and additives is not imminent, there will be increasing pressure to reduce their use through market signals. While APL does not promote the use of antibiotics as growth promotants, they are widely available for over-the-counter sale to livestock owners, feed millers and feed mixers.

The Australian pig industry has processes in place to effectively manage the use of antibiotics. It will be through an education and prudent use program, as well as part of the APIQ regulations, that these growth promotants are phased out. Only antibiotics approved for use by the NPVMA are used in the industry, these approval procedures assure customers that the medication of livestock with these particular antibiotics in the approved manner will not result in any harmful effects to consumers. There are already opportunities in Japan for quality pork grown with minimal use of antibiotics and additives, and this trend can be expected elsewhere.

Data released in the USA claims that banning growth promoting antibiotics would increase the cost of production in the US herd by $US4.50-5.00 per pig. Even though the health status of the WA herd is better than the US on average, and the use of antibiotics is less, it is clear that banning antibiotics would have a significant impact on WA producers.

Production costs will rise unless cost-competitive alternatives to antibiotics can be found and this should be a priority for research and development. Any such research needs to account for the impact of different production systems, many of which are unique to Australia and the interaction between factors such as length of lactation and composition of creep and weaner feeds.

Strategies that will assist in reducing costs are:

- **Destocking and restocking program**
- **Maintaining a disease eradication program**
- **Auditing current herd biosecurity practices**
- **Increasing farm biosecurity**
- **Tracing the movement of livestock**

Producer research reveals that the cost of antibiotics is herd specific and could vary between $1 and $7, or even higher, per pig produced pending the health status of the herd. This impacts on the cost of production by 0.7% to 3.5%. Reducing herd health compliance costs is a key and critical strategy.

Biosecurity Issues

WAPPA and the WA Department of Agriculture, together with other industry stakeholders, including processors, have worked together for a number of years to develop a Pig Bio-security Plan for the WA industry. The Stock Guard (Pigs) Committee conducted a bio-security risk assessment to develop this plan which sets out the strategies required to manage the biosecurity risks. Subsequently, a Pig Biosecurity Consultative Group was established, involving industry stakeholders, to oversee the management of these risks in the pig industry.

The formation of the Consultative Group has put WA at the forefront of planning for exotic, endemic and emerging diseases and any emergency incidents critical to the viability and security of the pork industry.

WAPPA is represented on this group by three members of its Executive Committee of Management.

The Australian pig industry operates in a global environment. Increasing movement of people and items to and from other countries risks introducing exotic diseases into Australia. As with other livestock industries, pig producers face increasing challenges to maintain high standards of individual farm biosecurity.

Environmental Issues

Pending local government regulations, environmental issues may limit the expansion of the industry unless there is considerable investment in environmental management systems in line with APL's National Guidelines for Piggeries.

The traditional environmental issues associated with pig production in WA are odour, contamination of ground and surface waters and in the case of poorly run outdoor operations, erosion and land degradation. For conventional production systems the technology is available to minimise these impacts in well managed operations. However, the move to alternative housing has created an urgent need for research to identify and control any environmental threats which may be associated with these new production systems.

A concern is finding an acceptable method of disposing of used straw bedding. Composting the straw and then spreading it on broad-acre or horticultural land is an option, but the nature of pig waste, which is high in some elements such as copper and zinc, provides some unique challenges.
Source: WA Department of Agriculture

Production Costs

Production costs vary considerably between herds due to the different forms of management and it is difficult to determine a value for a typical WA herd.

To demonstrate the impact fluctuating feed costs have had in recent years, calculations were made using the AUSPIG simulation model and figures derived and adapted from Pig Stats. An increase in the average cost of feed of $10 per tonne increases the cost of production by approximately $0.05/kg carcass weight (head-off, 68% dressing percentage).

Impact of cost of feed and productivity on cost of production ($/carcass kg)

Year	2000/01	2001/02	2002/03	2003/04
Average Feed Cost ($/T)	260	290	340	300
Pigs sold/sow/year				
17.7	2.19	2.31	2.57	2.36
19.4	2.10	2.22	2.49	2.27
21.1	2.04	2.17	2.44	2.22
22.9	2.01	2.14	2.41	2.19
24.8	2.00	2.12	2.28	2.17

N.B. No change has been made to the cost of other inputs for each of the years in the above chart, and no allowance has been made for return on capital.
Source: WA Department of Agriculture

The above simulations also attempt to demonstrate the impact on cost of production of changes in productivity. While some WA herds produce close to or above 24 pigs sold/sow/year, many are at the lower end of the scale.

Producers, especially those operating mixed farming operations, do not always have a clear understanding of their cost of production, either because they can't separate out the costs for the various enterprises, or do not see this as a priority.

Although the widespread drought of 2002/2003 did not affect the industry in WA like it did in other states, a 20% rise in feed grain prices, due to international grain price pressures, had an impact.

Pig Type and Cost of Production Comparison (AUD April 2004)								
USA ($0.75)			**Canada** ($1.00)			**WA**		
LWT	**DWT**		**LWT**	**DWT**		**LWT**	**DWT**	
118kg	94kg (80%)		113kg	90kg (80%)		99kg	67.5kg (68%)	
$/head	**$/kg lwt**	**$/kg dwt**	**$/head**	**$/kg lwt**	**$/kg dwt**	**$/head**	**$/kg lwt**	**$/kg dwt**
$154.89	$1.32	$1.65	$139.47	$1.23	$1.55	$134.64	$1.36	$2.00
Feed Cost % of Total			**Feed Cost % of Total**			**Feed Cost % of Total**		
59%			58%			65%		

Sources: **USA: www.econ.iastate.edu/faculty/lawrence/EstRet/FA04**
Canada: www.gov.mb.ca/agriculture/financial/farm2004/cac27s01
Department of Agriculture WA estimates.
Note: The $2.00 cost of production (DWT) is @ 30/9/04

Well managed Australian pig operations are regarded as comparable with the Europeans in cost of production but the USA and Canada enjoy an advantage (as shown above) due to the ready availability of low-cost feed ingredients such as corn and soya beans which are grown specifically for animal consumption in the domestic market with producers receiving an indirect subsidy.

The American *Farm Bill 2002* includes a commodity-specific scheme in relation to feed grains for intensive livestock industries, effectively encouraging the supply and provision of feed grain. This is an indirect subsidy on the US pork industry.

The dependence of WA pork producers on cereal grains, which are grown primarily as export crops for human consumption, makes the industry vulnerable to price fluctuations driven by international demand for cereals. In this context, events such as drought, either in Australia or another cereal exporting country, or changes in the global trading environment for grains can have major impacts on the cost of production of pigs in Australia and sector profitability.

A looming threat to WA's pig industry is that the use of animal by-products, such as meat meal, blood meal, bone meal and fish meal, may be banned in pig diets following human health concerns over BSE (Mad Cow Disease). These products are not only valuable protein sources in their own right, but they contain essential amino acids which are not plentiful in lupins, the major source of vegetable protein used in pig diets in WA.

These products are also cheap sources of calcium and phosphorus, which would need to be added in some other likely more expensive form, if animal by-products were excluded from pig diets.

Australian Pork Limited indicates that a ban on feeding of all animal products to pigs would decrease profitability by $60 per sow or 10%. If there was also a ban on the use of renderings and the compulsory incineration of all abattoir waste, as is the case in some European countries, then annual profit for an Australian piggery would decrease by 30%. It was concluded that the impact on cost of production of a ban on feeding animal products to pigs would have the greatest impact in WA because of the dependence of WA producers on lupin-based diets.
Source: Dr Bruce Mullan, WA Department of Agriculture

At the time of preparing this submission there is a glimmer of hope that there may be a marginal turnaround in the fortunes of producers which may only be short term. It is important that the long term viability of the industry is carefully examined to confirm that Government support is appropriate so as to enable the industry to restructure and continue to make a valuable contribution to the Australian economy.

This Government support and restructuring of the industry is needed to arrest the following situation as outlined in ACIL Tasman microeconomic analysis of the Australian pork industry.

Confidential

Labour

The limitation of available skilled labour is a major impediment to growth and sustainability. Although labour is a major component of the cost of production reducing the total cost of labour is not an option for most piggeries. A better strategy might be to increase the reward for labour, with a view to attracting a better skilled workforce and increasing productivity per unit.

A key issue is that the pig industry is not considered by young people as having long term career prospects, and pay rates are significantly less than what they may achieve in, for example, the mining industry. Priority areas for training include handling of stock on farm and during transport and pre-slaughter to optimise pork quality and safeguard animal welfare.

Some producers experience high staff turnover due to relatively poor working conditions. Educating owners and senior management about the basic working conditions required to maintain staff is a priority, although this largely depends on industry profitability.

Access to and retention of skilled labour in WA (Prepared by Pork Industry Training WA)

Contributing factors:

- Nature of working with pigs and piggery environment - noise, smell, health aspects
- Regional distribution and isolated living - young people, families
- Limited pay & conditions
    - Farm Employees Award - qualified farm tradesperson $12.30/hr (min wage), compared to:
        - $14.77/hr for a mechanic under the Metal Trades Award
        - $16.42/hr for a bricklayer under the Building Trades Award
    - requirement for weekend work
- Lack of focus on human resource management – focus is on improvements in genetics, nutrition etc rather than staff training and workplace conditions
- Low unemployment
    - 5.1% July 04 compared to 10%+ early 90s
    - shifts focus of recruitment from general unemployed to those making conscious career choices
- Competitive nature of the job market – competing with
    - other industries (mining)
    - opportunities in professional positions
    - young rural people becoming more qualified and opting for city jobs/lifestyle
    - city folk being reluctant to move to rural areas
    - changing trend in employee longevity

Consequences:

- **Access**
    - employers forced to be beggars rather than choosers
    - employers settle for what they can get, rather than selecting on the merits of experience, qualifications & attitude
    - results in an unskilled labour force
        - reductions in productivity
        - need to invest more in staff training & recruiting new staff
- **Retention**
    - industry struggling with extremely high staff turnover
    - study in 2000 indicated a 34% turnover rate in the WA industry
    - high turnover creates secondary issues
        - lower productivity
        - increase in recruitment costs
        - lower morale
        - lack of career mindset among staff

What's being done in WA:

- **Industry has identified the need to**
    - work towards increasing the pool of available skilled labour
    - have mechanisms in place to train and develop staff once recruited
- **WA Pig Skills Centre**
    - piggery dedicated to providing training & work experience
    - constructed in 1999
    - grants – Australian National Training Authority, National Pork Industry Development Program, Department of Commerce & Trade, producer levies through the Pig Industry Compensation Fund
- **Industry Training Officer**
    - fully funded by WA producer levies
    - appointed in 2002 to coordinate training activities and encourage new entrants
    - position guided by producers and industry representatives

- **Benefits of Training Officer**

    - strong industry partnership with TAFEWA/CY O'Connor
        - delivery of nationally accredited course for Cert III Pig Production
    - increased access to training funds
        - Farm Bis
        - State training funds
        - Traineeship/New Apprenticeship scheme (WA producers have accessed $180,000 in 3 years)
        - time away from farm/workload are still major impediments to training
    - delivery of one day courses
        - husbandry, stockmanship, achieving production efficiencies
        - OHS/increase awareness of obligations
    - collaboration with other states
        - share ideas and resources

What more can be done:

- **Work with schools, particularly agricultural colleges**
- **Continue to deliver and improve existing training programs**
- **Continue to seek funding for training and lobby for the maintenance of traineeship incentives**
- **Focus on management level training for employers – people/production/financial management.**
- **Learn from our competitors in terms of human resource management**

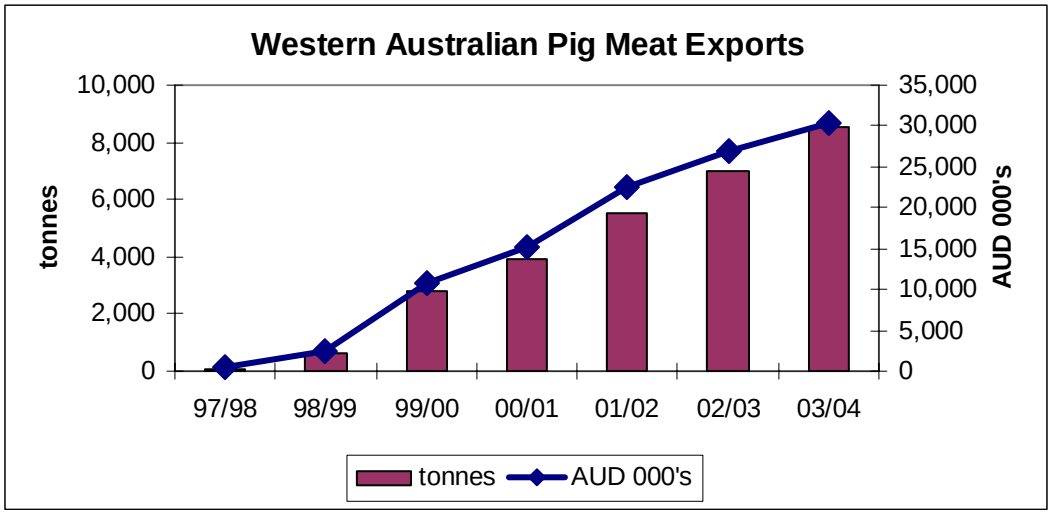
Ideally the industry needs to pay good money to attract quality staff who have an affinity with pig farming, and then train and develop them for the long term benefit of individual businesses and the industry as a whole.

Source: Emalyn Louden, Pork Industry Training Officer (WA)

INFLUENCES ON SUPPLY & DEMAND

Exports

WA pigmeat exports have grown from 67 tonnes in 1997/1998 to 8,504 tonnes in 2003/2004, with Singapore accounting for 92% by volume.



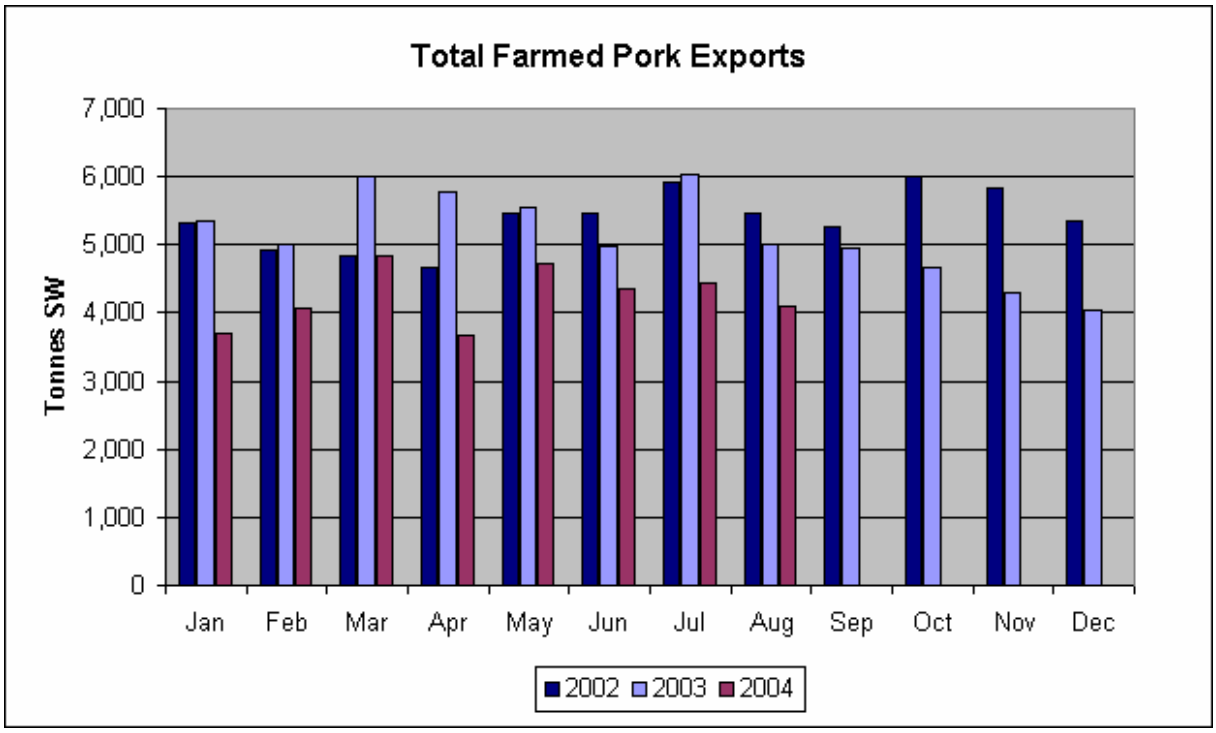
Critical in this export growth, from a WA perspective, has been the quality of product and the willingness of the exporter to work with the Singapore customer to develop product specific to their requirements. Changes in the international trading environment at the time and aggressive promotion and marketing by exporters and the Trade and Development arm of the WA Department of Agriculture also assisted.

The major product exported is fresh/chilled carcasses, which make up 96% of all products to this market. The balance is fresh chilled cuts from the middle and shoulder primals. New Zealand is the second largest importer (6%), sourcing mainly frozen carcasses.

August 2004 Pork Export Report

	FARMED PIGMEAT EXPORTS					
	TOTAL		SINGAPORE		JAPAN	
	Volume Tonnes SW	Value $A (million)	Volume Tonnes SW	Value $A (million)	Volume Tonnes SW	Value $A (million)
Aug-04	4,106	13.6	1,900	6.2	653	3.8
Jul-04	4,426	15.6	1,970	6.4	881	5.1
Aug-03	5,021	17.1	2,319	7.6	1,024	5.8
MAT	51,864	176.8	23,095	77.4	9,701	54.1

Australian pork exports in August were 18.2% below previous year volumes with processors reluctant to increase export volumes while domestic pig prices experience such growth. Prices of Australian baconer weight pigs increased by 16% between July and August, effectively increasing the input costs for exporters. Some processors have also been tempted by the strength of the domestic market, which many suggest is currently a more lucrative alternative to an export trade pressured by a strong AUD. Medium to long-term gains are instead the major attraction for those organisations continuing to supply pork export markets.



Moving Annual Total (MAT) pork exports to Singapore are now 29.9 percent below year ago volumes, with monthly tonnages averaging just over 1,900 tonnes during the last 12 months. Australia's pork exports to Singapore have been relatively stable over this time period.

The Singapore Agri-Food & Veterinary Authority (AVA) has now declared the Malaysian provinces of Johor and Malacca as bird-flu free zones. The AVA ban on poultry and egg imports from these areas will therefore cease effect from September 30, 2004. The Malaysian poultry ban has seen Singapore consumers hit by rising poultry and egg prices, therefore increasing demand for pork supplied by countries such as Australia.

Source APL August 2004 Export Report

The purpose of providing this current position is to highlight the importance of this market to the WA industry in moving product. However, viability has been decreasing due to the exchange rate and higher than expected freight costs. Further, the pork industry's continued reliance on this particular market is a concern, particularly as it was, in part, an opportunities market win, with the outbreak of the Nipah Virus in Malaysia prevented pigmeat being exported from that country in 1999.

Nipah Virus Outbreaks

From September 1998 to April 1999 there was a significant outbreak of encephalitis in Malaysia. Investigations identified the previously unrecognized Nipah virus, as the causal agent. Of the 265 people infected, 105 died. Ninety-three percent of cases had occupational exposure to pigs. An associated outbreak among abattoir workers in Singapore in March 1999 led to 11 cases and one death. These workers had handled pigs imported from the outbreak areas in Malaysia.
Source: World Health Organization

Before the Nippah virus outbreak, per capita pork consumption in Singapore was 31kg. In subsequent years it was:

1999	15.2kg
2000	12.2kg
2001	12.5kg
2002	18.2kg
2003	19.8kg

Source: APL

As Malaysia is effectively 'next door' in trade terms, it could rapidly regenerate its industry once declared free of any exotic diseases. With its lower costs of production, this possibility could impact on the likely growth and maintenance of the Singapore market for WA pork producers.

The same impact could apply if China and Vietnam, with their low cost of production and transport, entered the market.

WAPPA recommends that these possibilities be examined against the potential demand for pigmeat in the Asian region.

Japanese Market

WA exported 89 tonnes of mainly fresh/chilled pig meat to Japan in 2001, but this trade was not sustained due to the exacting demands of this market, which requires cuts or products from larger carcass specifications not currently produced in WA. This creates issues which need addressing, including supply and the need for alternative markets for the other unwanted cuts. However, the potential value of the Japanese market for export of product from WA makes the necessary development work worthwhile. Processors are currently investigating potential in this market.

WA's contribution to total exports from Australia has grown from 6.9% in 1999/00 to 16.4% in 2003/04, mainly due to the Singapore market.

Imports to WA

Imports into WA are dominated by Canada and Denmark. **Imports from Denmark (1,618 tonnes) more than doubled in 2003/04, but Canada was still the major supplier with 53% (1,846 tonnes).** Canada mainly supplies boneless, frozen meat leg cuts and Denmark frozen boneless middle cuts. These products are processed into small-goods for the domestic market. While the US has supplied very small quantities of pigmeat to Australia, none has entered WA.

Growth Potential

Current market estimates by Trade and Development, WA Department of Agriculture, are that WA pigmeat exports will continue to increase for the next five years, provided:

- **There is significant new investment to provide capacity and competitive infrastructure to ensure adequate volumes of pigmeat for the export market**
- **The pigmeat produced meets the quality standards of existing and emerging export markets, including the demanding Japanese market, and is accepted by consumers, who are becoming more concerned about welfare and environmental issues;**
- **The cost of production, processing and transportation is internationally competitive.**

New investment

Although operating margins have been tight, commercial interests have recognised the potential for growth in the WA pig industry, and significant investment has taken place in production and processing facilities. PPC/Linley Valley, owned by Craig Mostyn Pty Ltd, has upgraded its abattoir complex with "state of the art" technology and now slaughters up to of 13,000 pigs/week. The complex has been designed and built to support future modular upgrades to cope with any growth in the industry and maintain the efficiencies of having only one major export abattoir in the state.

The new complex has full export accreditation for Singapore, Korea and Japan.

Product Quality and Consumer Acceptance

In the last five years positive changes in product quality have emerged due to the demands of the export market and a realisation among producers that eating quality limits domestic consumption. WA producers are now much more aware of the importance of variables such as flavour, tenderness and juiciness in determining the eating quality of pork and subsequent demand by consumers in export and domestic markets.

A key example of a change in production systems to improve eating quality is the widespread adoption of immuno-castration to reduce the incidence of boar taint. This has been embraced more in WA than in other states due to education programs with producers, processors, butchers and retailers about its benefits.

Opportunities in the Singapore market have focussed attention on minimising fat content of the belly region, a cut with little importance domestically. WA Department of Agriculture research has developed prediction equations to help better select carcasses suited to this important market.

The uptake of the Australian Pork Limited (APL) APIQ program by WA producers has been excellent and the vast majority of pigs slaughtered in WA now produced under this quality assurance scheme. There is effectively no differentiation at the market place on the basis of whether a herd is quality assured or not. Given the relatively high costs for small producers of implementing and maintaining the scheme, the lack of any price differentiation is why many do not embrace it. WAPPA is therefore reviewing the current program with APL to encourage greater acceptance and understanding of APIQ.

Producers question whether pork being imported into Australia has been produced under similar quality assurance standards as the local product.

INDUSTRY COMPETITIVENESS

Local vs. International

The WA industry is under pressure due the following:

- Increases in subsidised imported product, which causes lack of demand for local product.
- Lack of consumer knowledge that they are buying imported product.
- Processors buying imported subsidised product to maintain their competitiveness.

The imported product has adverse impacts on the sale of domestic smallgoods, hence the essential need to create an industry sponsored marketing program for the home grown product.

WAPPA considers that consumers should be able to identify the country of origin of pork contained in manufactured products. It has therefore strongly supported the APL initiated campaign by for the ***Australian Home Grown Product*** as a way of building consumer loyalty for Australian pork products.

Pig Support Estimates (PSE)

The PSE seeks to include the annual monetary value of transfers from consumers and tax payers to agricultural producers, measured at the farm gate level, arising from policy measurers that support agriculture, regardless of their nature, objectives or impacts on farm production or income.

Pig Meat Producer Support Estimates – 2000-2002 (OECD)

	PSE% for pig meat	***$US million***
Australia	4	18
Canada	7	162
EU	24	5,711
USA	4	473

Wheat PSE– 2000-2002 (OECD)

	PSE% for wheat	*$US million*
Australia	5	103
Canada	16	427
EU	46	8,982
USA	40	3,993

EU Common Agricultural Policy

- Denmark has access to Common Agricultural Policy (CAP) intervention measures such as export refunds (when activated) and private storage aid.
- The CAP also protects EU pork markets by restricting pork imports trade through trade barriers i.e. tariffs and quotas.
- The domestic price support arrangements, which keep EU internal prices above world prices – are only viable in conjunction with import barriers.

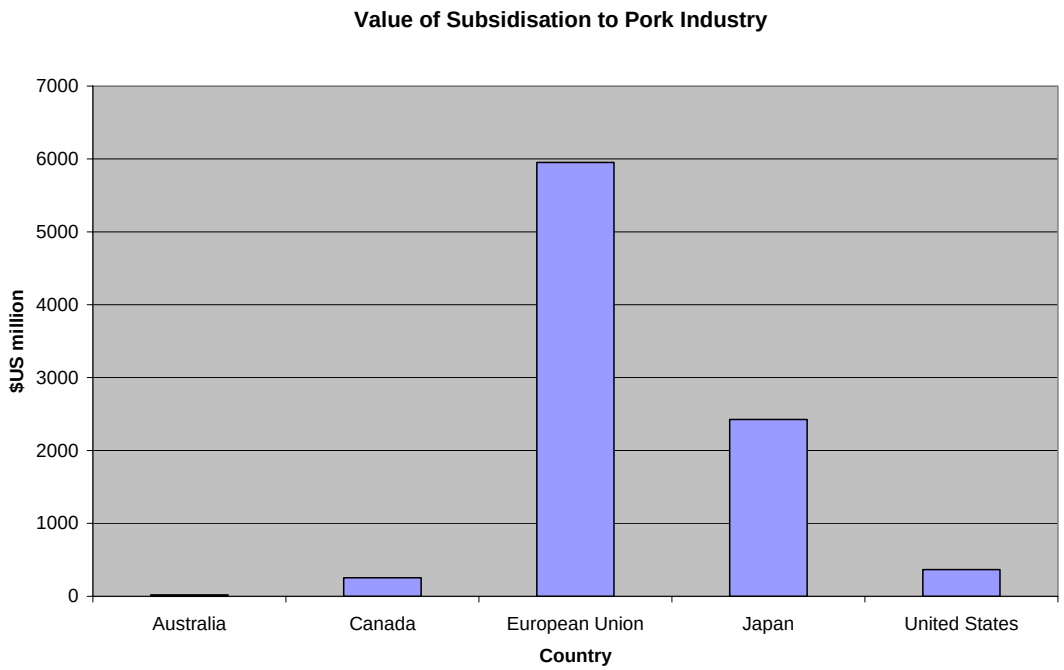
The Value of Subsidisation

The OECD Measures the support given to agriculture using the Producer Support Estimate (PSE). The PSE measures support from policies against the situation if there was no such support. This includes policies of market price support, direct payments to producers, reduction of input costs, and general services.

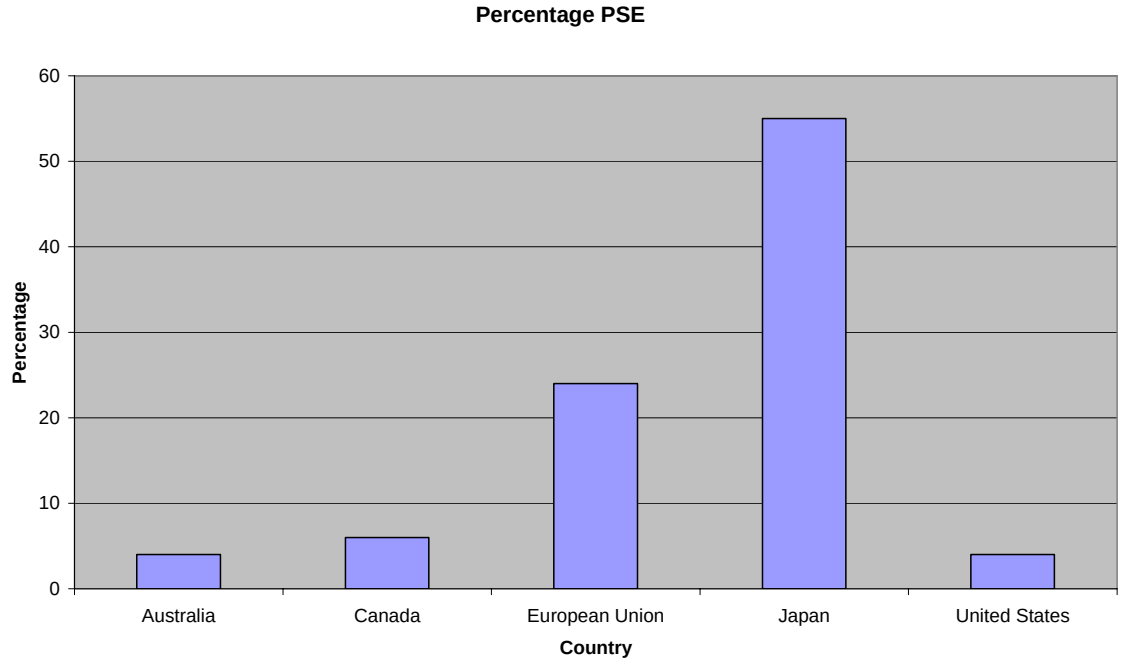
The PSE can be expressed as a dollar amount. To compare between different sized industries, it can be expressed as a ration between the total value of production as measured by gross farm receipts and the budgetary support (the 'percentage PSE').

The following graphs consider the PSE and the percentage PSE.

Value of Subsidisation in $US millions



Value of Subsidization as Percentage PSE



This graph clearly demonstrates the advantage the Danish pork producer (EU) has over his Australian counterpart, hence the reason why the local

manufacturers more than doubled imports into WA from Denmark in 2003/04, to the detriment of local producers.

Carcass Weights

As previously mentioned, carcass weights have increased over the last 10 years, with most of WA's top pig producers now marketing carcasses at 100kg to 110kg live weight (68kg to 76kg carcass weight) with an average 20 pigs per sow per year.

Based on Hassall and Associates (1995) data, Australia is behind the rest of the world in the efficiency and effectiveness of its pig processing sector.

	AUSTRALIA	USA	NETHERLANDS
Abattoir ($/kg carcass)	0.19	0.11	0.16
Boning/Cutting ($/kg carcass)	0.42	0.17	0.26
Pigs killed/person/hour	5.4	6.5	8.7
Pigs boned/cut/person/hour	1.7	3.3	3.7

There is little reason to expect productivity of the Australian processing sector has improved markedly since this data was generated.

A major contributor to the higher costs in Australia is low carcass weights, especially compared with the USA. Further differentiation of products and innovative branding strategies could also enhance demand in increasingly discerning world markets.

Carcass weight is a key determinant of the cost of pork production from the farm to the consumer. On farm an extra kilogram of pork produced does not carry any of the fixed costs of the business. This includes the total costs of the breeding herd from labour to sows costs to feeding of the sow to building costs plus some other minor fixed costs such as consultants' and accounting fees. At the abattoir the costs of slaughtering an 85kg carcass are essentially the same as slaughtering a 70kg carcass. In the boning room costs of boning an 85kg carcass are similar to when boning a 70kg carcass. Australia's key competitors in North America are now achieving average carcass weights of 90kg but are producing larger pigs of up to 130kg for their domestic processing sector. This puts the Australian pork industry at a distinct cost disadvantage to our competitors.

WAPPA strongly endorses APL's drive to increase carcass weights (pending market demand) and therefore reduce costs right through the supply chain, making the industry more globally competitive, provided we compete on a level international playing field.

Government Role in the Industry

After examining all the evidence before it, WAPPA believes there is a genuine need for the Federal and State Governments to invest in restructuring the industry.

Any industry with export earnings of $177 million (Moving Annual Total at 31/8/04) , a direct and indirect supply chain value worth $2.6 billion in gross value to the national economy and employs 33,000 people deserves a level of Government support.

With the growth of the pig industry in developed countries declining due to environmental concerns, the industry in WA is well positioned to expand. It has the land, resources and expertise to supply quality product to customer specifications **provided it is competing on a level playing field with its major competitors**.

The industry's clean and green image, world class research and development facilities can only enhance its capacity to grow, particularly its market share in the Asian region, where **the population is expected to grow by 500 million people in the next 15 years.**

WAPPA and the wider industry acknowledge the outstanding support it receives from the Pig Research and Development Group within the WA Department of Agriculture.

The impact this Group had on pork industry has been particularly evident in the past decade as the industry has grown and developed. The co-operation and research work done by the Department gave many producers the confidence to adopt new technologies and to invest in new facilities and production systems.

Although delicately placed, pork production is now an integral part of the rural landscape in WA. It requires the support of Governments to stay that way and help reduce any further decline in rural communities by providing employment opportunities and local investment.

CONCLUSIONS AND RECOMMENDATIONS

The current economic environment does not engender the enthusiasm within the WA industry to expand in the immediate future. However, WAPPA is confident that with a firm commitment from the State and Federal Governments there is sufficient expertise and resources for WA industry to become a major supplier of pork on the global market, while at the same time adopting innovative strategies and best management practices to secure the future of producers and the industry.

WAPPA recommends APL's Draft Restructure Plan for the future be adopted, implemented and be characterised by the following:

- Aligning production and supply chains with global production and trading systems in order to reduce costs and make the industry more competitive against imports
- Increasing efficiency and utilisation of key feed sources
- Lowering price volatility
- Greatly increasing domestic market sales of fresh meat
- Reducing penetration of processed goods by imported product
- Steadily growing niche export markets to capitalise on its key competitive advantages of low disease status and geographical location
- Meeting consumer and society standards of ethical food production
- Increasing levels of regional employment and value adding

To achieve this, APL's Draft Restructure Plan identifies seven key strategic programs, ranging from fresh and processed pork sales, carcass weight, feed costs, payment systems, animal health to trade measures.

APL has identified a number of specific strategic program areas which will require Government support, including:

- supply chain re-alignment to increase efficiencies
- animal health initiatives to reduce costs and meet consumer demands
- reducing feed costs
- trade measures to address the market distorting practices of competitors which diminish the industry's capacity to fairly compete in both the domestic and international market
- developing export markets and building export growth
- building consumer loyalty for 100% Australian smallgoods

WAPPA further recommends:

- The inquiry examine the impact pork imports are having on the Australian pigmeat industry, with special reference to the subsidies received, both direct and indirect, by our major competitors, Denmark and Canada and potentially the USA and others.

- If such an examination determines the industry is being injured by imported product, that it advocates the necessary measures to improve the competitiveness of the industry and determine if a safeguard investigation is warranted.