Australian Pork

Draft
Australian Pork Industry
Restructure Plan
Summary – Industry Consultation

December 2004

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Background

Given recent difficult economic circumstances, a key issue for pig producers and Australian Pork Limited (APL) is the industry's future sustainability. To address this, APL has developed a draft five year Australian Pork Industry Strategic Restructure Plan, with the key objective of radically restructuring the pork industry and its supply chains to create a globally competitive industry with long term sustainability that is able to take advantage of new market opportunities.

The key components of the plan are to:

- Align and benchmark the production and retailing of pork in Australia to the global marketplace to capture efficiencies, increase margins and remove inhibitors to market access.
- Increase fresh meat consumption significantly to capitalise on the value of the primal cuts as traded in the global pork market;
- Drive costs out of the supply chain including reducing the industry's key input cost, feed, improving animal health and rationalisation of the supply chain.
- If this is achieved then the industry will increase international and domestic market access, expand existing markets and develop new markets through increased competition and product innovation.

Consultation Process

As these competitive and efficiency issues confront the entire industry, the success of this Restructure Plan is critically dependent upon securing the support and endorsement of the whole of the supply chain. To achieve this APL embarked on an extensive consultation Australia-wide consultation process on the draft Industry Restructure Plan, which it has now completed:

- *Joint Industry Government Working Group* review and comment; this group comprises of key representatives from the Australian Department of Agriculture, Fisheries and Forestry (DAFF), supply chain stakeholders drawn from abattoirs, boning rooms and processors, and also APL representatives
- *APL Marketing Development Committee* review and comment; this group comprises key supply chain members drawn from abattoirs, boning rooms and processors.
- *Consultation meetings* in each state with producers, contract growers and key supply chain members including abattoirs, boning rooms, processors, retailers, regulators, state government extension officers and industry consultants. Producer meetings have taken from 3 to 4 hours to conduct and attendance has varied from between 5 to 30 participants. Overall, the total number of producers attending the consultation meetings represented approximately 20% of Australian sow herd.
- *Independent feedback* from Piazza Consulting resulting from their survey of producer representatives i.e. Member Delegates and State Farming Organisations, inviting comment regarding their level of acceptance of the industry restructure strategies and their alignment with the purpose of the industry plan. Responses

from 30 delegates were achieved, representing some 74% of production; with 4 out of the 5 state farming organisations also responding.

- *Written submissions* called for. Analysis of written submissions received by APL from stakeholders. APL called for written submissions from all sectors and stakeholders with the terms of reference advertised widely through various APL communications and publications, APL website and mass mail out to members, producers, the supply chain etc; advertisements were also placed with the various pork media publications. Seven submissions were received, the majority from producers.
- *APL Annual General Meeting* November 2004. Presentation and discussion with Delegates, producers, members and other stakeholders

This report outlines the results of these consultations.

Key Findings

Key findings of the survey included:

- APL enjoys very high levels of support for its seven key industry restructure strategies and strategic programs. This is best characterised by the Delegate and State Farming Organisation's survey response which essentially reflected the overall findings of the entire consultation process. The survey response showed that the highest level of support for the strategic goals was 100% and the lowest was 86%. The highest level of actual disagreement for the strategic goals was only 6%. There are also high levels of support for the various strategic programs of each strategy. The majority of delegates (between 59% and 100%) showed overall agreement for each of these, while 5 out of the 7 strategies programs only received between 0% and 7% actual disagreement. There were only two strategy programs receiving any significant level of actual disagreement; the strategy relating to increasing carcase weight received 34% disagreement, while the strategy relating to price stability and long-term pricing contracts received 28% disagreement.
- Overall feedback was highly positive. Much of the discussions centred on the strategies relating to increasing fresh pork sales, increasing carcase weight and creating new pricing systems. There was also a lot of interest in the strategy to enhance animal health with producers seeing a role for government assistance as well as the strategy to reduce feed costs with strong support for its strategic programs in particularly the Pork CRC and grain importation.
- Responses also reinforced that the restructure will only work with *all* of industry support and commitment from producer to retailer and that the process must be *driven from the top down;* the ongoing importance of conducting market research and consulting with the industry and the market (consumers) to ensure that the process is market-driven; and that the strategies are integrated, in particular plans to drive fresh pork sales in the domestic and export markets.
- Concerns were raised regarding specific strategies:

- *Strategy to increase carcase weight.* Concerns were mainly about the industry's ability to convince the market (consumers and retailers) to take on a new product and with the need to provide national consistency in terms of genetics, product quality and eating quality (boar taint was frequently mentioned) when developing the larger carcase product. Any increase in carcase weight must be driven from retailers and consumers.
- *Strategy to create new pricing systems.* Concerns were mainly about a lack of confidence that AUSKEY and lean meat yield (LMY) measurements are reliable and consistent; others doubted that it is realistic to establish AUSKEY uniformly across all abattoirs saying that some of the smaller ones will not be able to follow suit.
- *Strategy to build consumer loyalty for 100% Australian small goods*. Concerns were mainly about an audit process to ensure the integrity and legitimacy of the brand in the mind of consumers.
- *Strategy on trade measures to level the trade playing field.* Concerns raised that insufficient programs being undertaken by APL and that Governments do not understand the realities of the level playing field and would not cooperate with the measures proposed.
- APL is considered the organisation to take the lead role for all but one of the strategies - the strategy to create new pricing systems- where processors were identified. It is best summed up by the statement that "APL has to drive the transformation of the industry. Much of the basis for the Restructure Plan has been recognised for the best part of the decade, but no sector has made the major adjustments required."
- It is also clear from the consultations that to achieve competitiveness across the whole of the supply chain APL must focus resources on achieving critical strategic actions and not be distracted by the numerous other issues confronting producers and the industry, which while relevant are not, at this stage, as crucial.
- During the consultation process, participants were provided with a copy of the draft Industry Restructure Plan and asked to rank the proposed strategies to assist APL in:
    - Allocate resources & identify other funding avenues
    - Prioritise activities
    - Engage supply chain and key stakeholders
    - Lobby government(s)

- The relative priority of the various strategies presented in the restructure plan are as follows:
    1. Increase fresh pork sales.
    2. Reduce feed costs.
    3. Increase carcase weight.
    4. Enhance animal health.
    5. Trade measures – levelling the playing field.
    6. Build consumer loyalty for 100% Australian small goods.

7. Create new pricing systems

- However, as many of the strategies are interrelated, their success is interdependent particularly those that relate to the food chain; it should be noted that many stakeholders found it hard to assign priorities to each strategy.

Process from here

- APL, with the assistance of Ernst and Young and supply chain participants, is currently undertaking a cost benefit analysis to assess the draft Industry Restructure Plan strategies (and other key operational activities currently undertaken by the company on behalf of the industry, for example animal welfare and environment). This analysis will be completed in February 2005.
- The draft Plan will also be reviewed by the Joint Industry Government Working Group for further refinement, especially in relation to government and industry roles and funding.
- The APL Board is expected to sign off on the final Restructure Plan by end February 2005. The Restructure Plan, in turn, will provide direction for the development of APL's strategic plan for 2005/08 as well as the realignment of APL's operational activities.
- If you have any questions regarding the draft Restructure Plan and/or the consultation process, please contact Kathleen Plowman or Patrick Donaldson on 1800 789 099.

- **Attachment A Producer Consultation Process:**
- **Summary of Regional Meetings**

- A range of stakeholders (producers, contract growers and key supply chain members including abattoirs, boning rooms, processors regulators, state government extension officers and industry consultants) attended industry restructure plan consultation meetings held by APL Australia wide. Overall, the total number of producers attending the consultation meetings represented approximately 20% of Australian sow herd. Chart 1 below provides a breakdown of producer representation state by state.
- Chart 2 shows the priority preferences of each state for the draft Industry Restructure Strategies.

Chart 1 State Representation

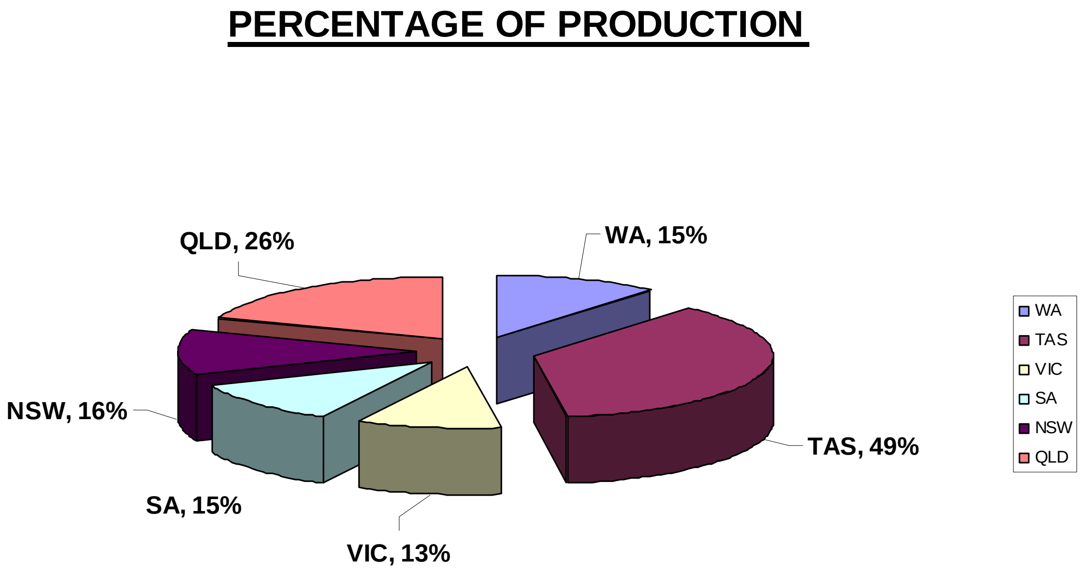
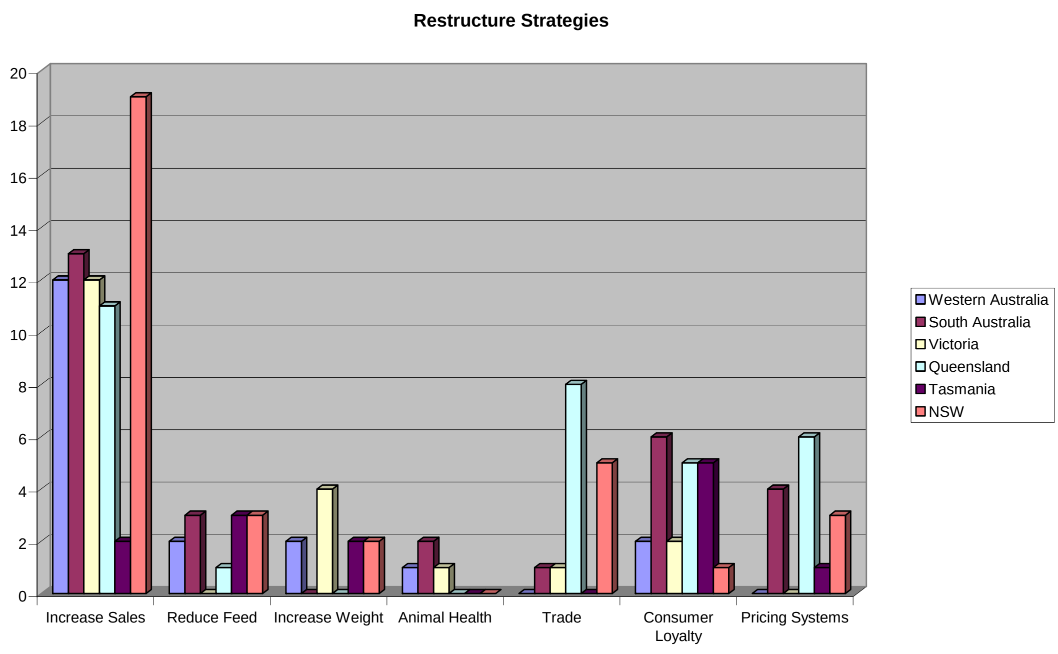


Chart 2



<u>Tasmania – aggregate sow numbers represent 49% of production</u>
3rd November
13 attendees
Approx 1,400 sows represented

Key Issues/Comments:

- Move to bigger pigs creates problems with fat, yet whole aim of the industry over last decade ahs been to produce product with less fat
- Wholesalers will not take a bigger pig
- Training strategies needed to educate major retailers and independent butchers on larger carcases
- Market as white meat healthy omega 3 fatty acids from fish meal or fish oils
- Facilitate group action to achieve critical mass
- Need to address imports

<u>Victoria aggregate sow numbers represent 13% of production</u>

- *Shepparton*

28th October
19 attendees
Approx 6185 sows represented

Key Issues/Comments:

- Producing a heavier carcase will result in penalties
- Trying to re-educate consumers with respect to pork has not worked in the past
- APL needs to analyse every dollar spent on marketing to determine where we can maximise value and explain in detail how marketing dollars are spent
- Need to communicate the health aspects of pork in the food diet e.g fact sheet on the benefits of pork
- Should work with other agricultural industries for improved prices with retailers
- Raise farm management and employment opportunities in the industry. Need a policy on Genetically Modified grain
- Need government assistance to encourage people to uptake quality assurance systems since it is an additional cost to the producer that is not recovered in the market
- Need to further examine traceback and livestock identification systems, their costs and potential growing consumer expectations regarding food safety and integrity; must ensure that it is not an additional cost to Australian producers which gives imported pork product another cost advantage
- Create greater consumer awareness about buying Australian product
- Need to be able to hold companies accountable that do not adhere to the HomeGrown Code of Conduct
- Greater focus on export markets
- Need to address problems of subsidies given to our competitors i.e. ensure that it is fair trade
- Eating quality and castration are important
- Access to better genetics
- Need to have clear identifiable goals that can be measured down the track
- Producers need to see results for contributions they have made
- Timeframes are unachievable
- Improve efficiency of abattoir and boning rooms

* *Ballarat*

29th October
4 attendees
Approx 4,030 sows represented.

Key Issues/Comments:

- Carcase weight increase has problems for eating quality, boar taint; also need to address female taint
- Need strategy on producing a quality product that ensures an enjoyable eating experience

<u>New South Wales aggregate sow numbers represent 16% of production</u>

* *Lismore*

1st November
6 attendees
Approx 2,940 sows represented.

Key Issues/Comments:

- Better understanding of retailers
- Strengthen our relationships with retailers
- Producing a heavier pig will hurt the industry, particularly small producers
- Major processor has concerns about quality and supply of product
- APL needs to look at where we can make ground through genetic gains
- Not enough focus on export markets
- Need to ensure the integrity of the HomeGrown brand, brands in general and content of the product
- Concern expressed that the price differential for HomeGrown product may be greater than what consumers are prepared to pay; they may subsequently redirect their purchase to imported pork products

* *Gunnedah*

11th November
7 producers
Approx 1960 sows represented.

Key Issues/Comments:

- Increase uptake of technology to improve production efficiency
- Improve product and meat quality by reducing animal stress in transport, lairage and slaughter
- Lobby government for exit packages for small or non viable farms
- Larger carcase provided impetus for greater use of imports
- Ensure that we competing on our market advantage and not those of our competitors with respect to heavier carcase
- If move to heavier carcase, must review pricing structure and pricing grid as it sends the wrong message
- Increase productivity (i.e. pigs per sow per year) as well as carcase weight
- Retailers won't take carcasses of the small producer despite meeting specifications; plan must address role of intermediaries

- Need to be able to import grain to compete efficiently to enable us to compete with imported pork particularly in droughts
- Important that APL educate small butchers on how to prepare carcase
- All products should have country of origin labelling

* *Grenfell*

5th November
23 producers
Approx 10,280 sows represented.

Key Issues/Comments:
- Boar taint is a problem
- Need for training programs for workers and assistance with wages
- If increase carcase will then be penalised under P2 system; need to provide compensation
- Butchers won't buy 85kg legs; butchers, wholesalers and consumers will not support 85kg carcase
- Quality issues with larger carcase
- Measurements systems in Australia are poor
- Japanese are introducing selenium enhanced pork; what kind of product enhancements are we looking at?
- AUSKEY should be combined with a trace back system if possible
- More focus on export markets
- Inefficient transport system and processing system – inefficiencies from abattoirs and processing sectors
- Better forecasting of supply and imports needed

<u>South Australia aggregate sow numbers represent 15% of production</u>

* *Murray Bridge*

25th October
8 attendees
Approx 2720 sows represented

Key Issues/Comments:
- Heavier carcase produced in US result of a difference in the bacon produced and therefore the way the pig is cut; different marketing concept which we may not be able to emulate here
- More effort into increasing reproductive changes
- Supermarkets must be willing to take boxed and case ready; can't be driven from down the chain.
- Need to find solutions to feeding efficiency of castrates and also payment system
- Problem of boar taint , fat levels, skin on or skin off, bacon size and bacon slicing machine, genetics and feeding regimes when produce heavier carcase
- Must be the demand for a heavier carcase from the top down
- By increasing carcase weight, won't be able to produce a boned in leg ham; are we distrain our existing market when we have an existing advantage against imported product?
- Processors must support the move to AUSKEY and lean meat yield payment system
- Concern that contracts only beneficial to retailers not producers
- Need government funding to undertake the animal health initiatives

- Must ensure the integrity of the HomeGrown program and that it has the support of processors and other stakeholders
- APL should fund or underpin a pork bellies future

* *Roseworthy*

26th October
21 attendees
Approx 5400 sows represented

Key Issues/Comments:

- Must also increase the percentage of consumption compared to other meats
- Issues concerning larger carcase must be addressed i.e. boar taint, castration
- Need to examine options of surgical castration and immuno-castration further
- Need to undertake trials with and also educate consumers on immuno-castration
- Produce a heavier carcase must remove P2 and the grid payment system as it is an disincentive
- Need to address quality and consistency in size of carcase like the Danes
- Animal welfare – better housing management relates to piglet survival
- Need to work with other grain end users to address feed supply and cost problems
- Need to address animal welfare and environmental issues
- Increase fresh pork sales in all markets including restaurants etc

Queensland **<u>aggregate sow numbers represent 26% of production</u>**

* *Toowoomba*

1st November
15 attendees
Approx 15,170 sows represented

Key Issues/Comments:

- Don't see any new innovations from APL to increase fresh pork consumption
- Increase consumption by increasing the demand for pork not through decreasing the price; also should not build the strategy entirely around consumer research as what they say and how they behave are fundamentally different
- Need to increase our market share of all meat sales
- Consumption figures need to take account of the effect moisture enhanced pork i.e. water content
- If competing in a fresh pork market do not need to produce larger carcase; less hassles of smaller carcase (problem of huge legs); can't do much with the left overs. Most importantly we need to produce what the consumer wants
- If produce a larger carcase then producers will contravene their licenses re sow numbers
- Problems with producing a heavier carcase that must be addressed i.e. environmental, boar taint, fat
- Restrict males to 75kg carcase
- Remove entire males from market place
- Immuno-castration is an industry issue and therefore APL should have a plan to address this; assess possibility of including in a QA system
- Need improved genetics – assess whether the risk are greater than the benefits
- Need to go to a carcase measurement system based on lean meat yield and ensure that the information is passed back to producers

- Lean meat yield is an eating quality and quality assurance issue and should be included in a QA system
- The proposed new pricing system will effectively cap prices to producers. If we do this then we will decrease returns to producers because you will have decreased risk and decreased reward.
- Implementation of research by commercial interest in the supply chain
- Increase uptake of new technology and research adoption by producers
- More promotional activity for export, particularly driving consumption in Asia
- Importing vaccines would assist in reduction of antibiotic use
- APL is not maximising the value of the information collects; it also needs to improve the monthly accuracy
- Trying to reduce the average cost of production from $2.15 to $1.80 is a wish list
- Need clear measures so that producers can assess whether the strategies are successful or not
- Has APL done any analyses of its success in achieving its goals?

* *Wondai*

2nd November
11 attendees
Approx 1760 sows represented

Key Issues/Comments:
- Butchers only want 45 to 50 kg pig, need to drive fresh pork change
- If produce a larger pig we will be put out of business by processors; also eating quality issues
- How will you convince butchers that a larger pig is not a bacon pig
- Concerns about retailers accepting a larger pig
- Need to target producers to produce a better tasting product
- Need to identify the throughput and operating costs of AUSKEY
- Identify the diseases and regions involved in eradication of endemic diseases in the Animal Health strategy; How would the depopulation/repopulation take place
- Still need to address the confusion of "Made in Australia" and "Product of Australia"

* *Biloela*

12th November
5 attendees
Approx 3300 sows represented

Key Issues/Comments:
- Need to ensure that increasing sales also results in increased returns to producers i.e. better prices for producers
- Consumption figures need to take account of the increased weight attributable to moisture enhancement
- Need to ensure that increase total market share of pork
- Need to build relationships with local grain producers so they understand our requirements
- Genetics are an issue if we move to producing a larger carcase
- Industry needs to have more control over genetics
- P2 system reduce P2 but not net carcase lean fat

- Government would need to provide relief to undertake animal health initiatives; also issues with respect to taxation and timing of depopulation/repopulation; potential tax incentives
- Ensure that HomeGrown initiative does not direct consumers to imported product because of too large a price differential
- Lack of skilled labour available; also because of poor returns, producers are financially constrained in retaining and employing staff
- Immigration department needs to see the pig industry as a professional industry

Western Australia aggregate sow numbers represent 15% of production

- *Perth*

22 October
11 Attendees
Approx 1760 sows represented

Key Issues/Comments:

- Increasing fresh pork consumption and increased carcase weight must be driven by consumers
- Need to research consumers and create a dialogue/relationship with retailers
- Must address meat quality and eating quality experience – need eating quality system
- Need to get better value from different cuts – need a system change in cutting up pig differently; need to value add fresh meat
- Need to look at not just legs but shoulders as well
- Concerns raised that longer term contracts lead to lower prices in the long tern
- Key problem is that Australia does not produce a standard product
- Must be careful that we do not produce too lean a carcase ands then we will have eating quality issues
- Need to manage production volatility
- Bacon intended carcase cutting techniques to match that of imported meat destined for manufacture to better compete on "prices for cuts" i.e. don't rely on high priced legs
- Better to be profitable at 50-55kg with completely satisfied consumers than have bad experiences with heavy weight pigs
- Be careful with moisture added fresh pork
- Break down legs, skin carcasses to value add
- Build export markets
- Increase economy of scale
- Quality standards
- Breeding programs for consistent product
- Grain varieties bred for intensive industries
- Increase technical performance of producers
- Reduce carcase variability
- Develop prepared meals like chicken industry