



Producer Notice

Industry Meeting re Extreme Pig Trading Conditions

8 May 2018

Information

Yesterday, the APL CEO, Andrew Spencer and General Manager Policy, Deb Kerr along with representatives from the state based pork organisations met via teleconference to discuss the most recent deterioration in pig trading conditions. Your representatives discussed the ongoing and concerning pig price decline, the inability in some cases to find buyers for pigs at any price, in many areas the profitability problems being exacerbated by increasing feed grain prices and a difficulty to source grain. Also discussed was the need for support for affected producers, to enable them to seek assistance, or to evaluate their future options. As noted above, some, particularly smaller, producers are finding it difficult to source a market for their pigs. This is terribly distressing for producers as they face possible decisions to euthanize unwanted pigs on farm.

Andrew Spencer advised that the latest production survey (released shortly to those who contributed data) indicates that not much will change in the current oversupply before October. Around 6.5% more pork has been produced over the last year compared to the twelve months before that. Despite demand developing in a positive trajectory, it was noted that the supply/ demand imbalance will likely take a significant shift in supply to resolve.

Producers have been asking why this has happened and what APL are doing about the situation. The attached information sheet sets out the key information around how we got to where we are. Whilst there is little that can be done in the short term, you are encouraged to [view the video distributed in last week's APL Communiqué](#), which outlines the latest APL April Marketing activities.

In addition, some producers believe that agreement of an access protocol with China will assist the current supply imbalance. Our experience is that this is a long-term (years long) strategy and not a short-term solution. Other producers have suggested that imports need to be stopped; however, imports have been relatively stable since October 2015 long before the price decline started. Commercial arrangements with importers may also have been agreed and backed by long term contracts making it difficult for importers to swap quickly to domestic pork. Producers are also citing anti-dumping laws as being ineffective. APL concurs and has been working with NFF, who sit on the International Trade Remedies Forum (informs government on anti-dumping matters), to seek a review. This has included a discussion with the Anti-Dumping Commissioner. While positive, again it is not a short-term solution as this requires amendments to the Act.

The group discussed what can be done to support producers through this period. There was a view that more information and communication needed to be provided to pig producers, and some additional initiatives implemented. APL heard that producers needed to hear more from APL and the state bodies.

The group agreed to facilitate additional actions including:

- Consider whether the SA industry support initiative (released to SA producers today) can be useful in other states
- Consider the merit in further producer regional meetings after the PPPE
- Mobilise the Delegates with a communication designed to help them inform their constituency about the industry situation and what is being done.
- Coordinated meetings/ messaging for federal and state politicians to at least have them recognise the industry issues at present
- Produce an "Industry Alert" relating to the undertaking of the APL/ SFO/ SPO teleconference and the key outtakes from it (being this document).

Key APL Contacts

General inquiries and further information

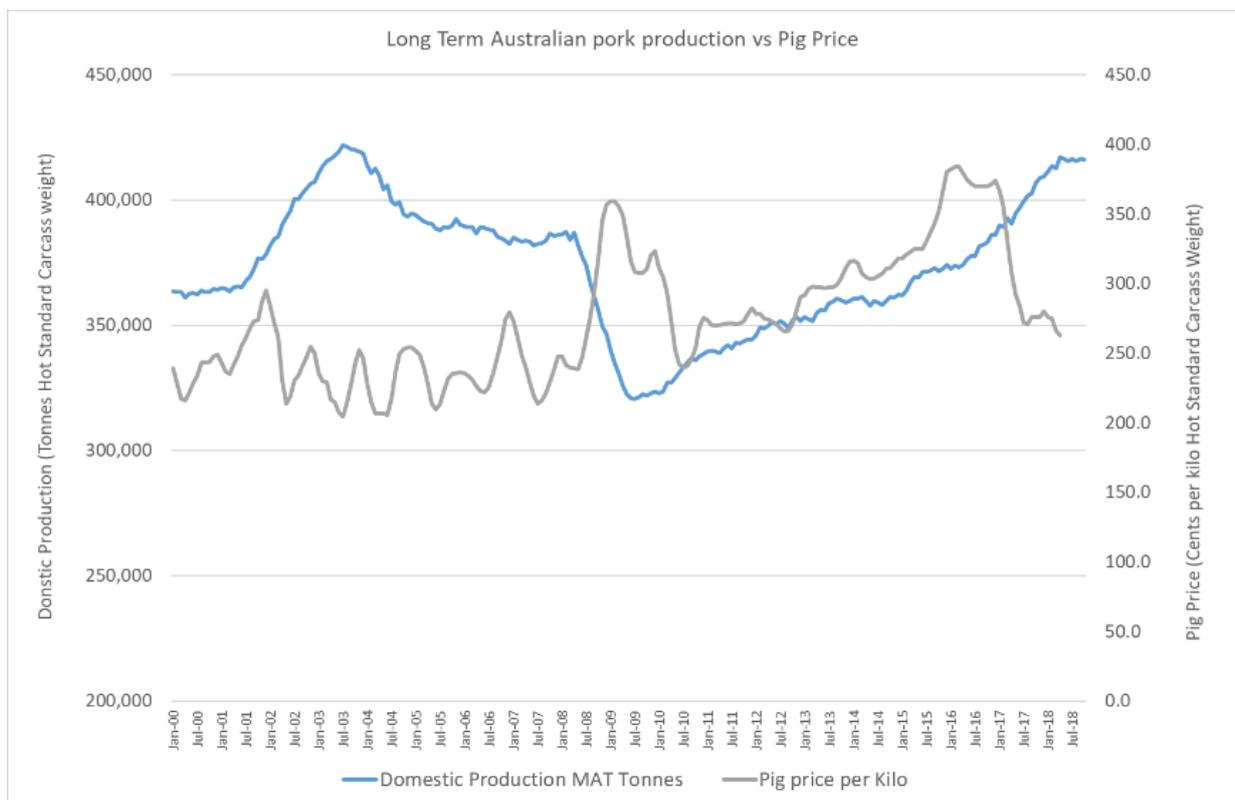
Deb Kerr
APL GM Policy

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Extreme Price Downturn

1. Strong pig prices up to the end of 2016 resulted in pig industry infrastructure investment

- This investment has resulted in a combination of more breeding sows in the industry and higher levels of productivity, which has now led to year on year pork production increases of around 6 per cent (to the end of February 2018)
- The 2017 price decline was to the cost of production for many producers (and even below for some). 2018 pig prices have reduced a further 10-20c/kg, while feed costs have increased
- The following graph shows pork meat production (Moving Annual Total) against pig prices (it is the same shaped graph if slaughter numbers are used)



2. Import volumes have neither gone up nor declined over the period since October 2015

- Our oversupply is not being caused by imports, it is due to domestic production growth (more sows, more piglets per sow and higher carcass weights)

3. Demand is growing but more slowly than supply is growing

- Our product is becoming ever more popular with our customers and has been for the past five years
- The 6 per cent supply growth trajectory is however impossible to keep up with from a demand perspective

4. The latest information from producers suggests that the growth in pork meat produced will moderate

- Indications are that between now and October 2018, pig numbers will continue to be high into the market. The growth in numbers may not be quite as high as it is now but given present intentions, the oversupply situation does not look to be significantly changing

5. April is traditionally a time of higher pork supply

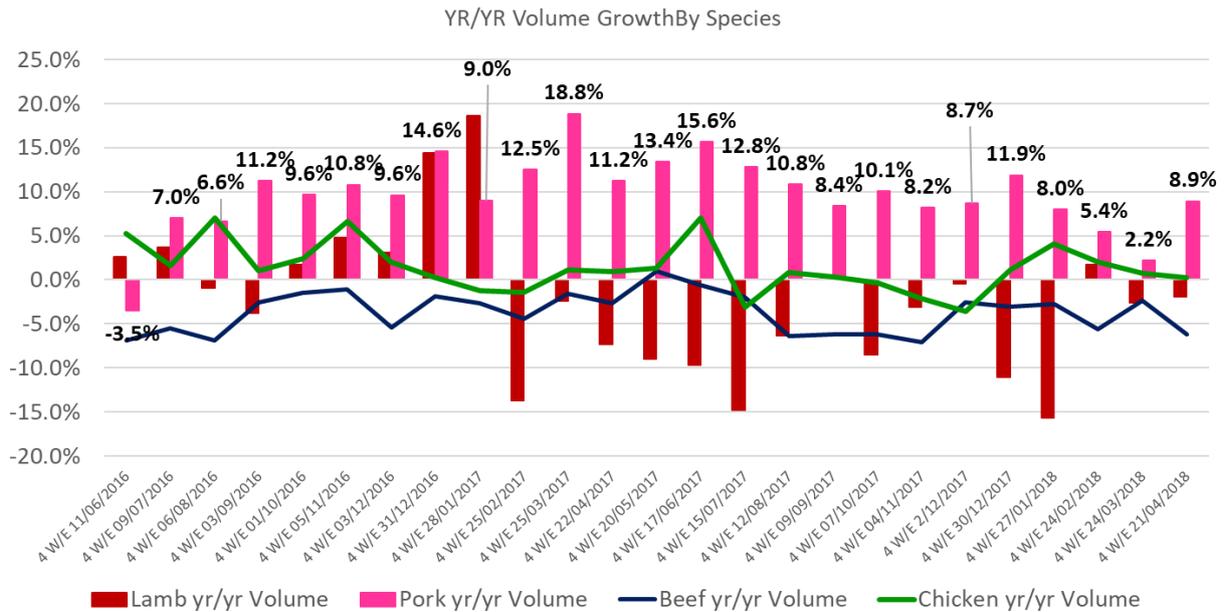
- As the weather cools, pigs eat more and grow more quickly, possibly reaching market weight 4 or 5 days earlier than normal. This causes a concertina supply impact around this time of year
- Additionally, due to the higher number of short weeks, processing bottlenecks exacerbate the supply issues

6. Feed prices are also on the increase

- ...meaning a double hit on profitability
- A rough rule of thumb is that \$10/t extra feed cost equates to around 4.5c/kg COP
- This leads to the most desperate market conditions right now that we have seen for some time.

7. What is APL doing?

- APL has no influence over pig supply, but it is our job to keep the industry informed around production intentions. There have been a few improvements to our systems around production forecasting made over the past year or more. We anticipate the next production survey results going out in the next weeks to those producers who contributed to the survey
- APL marketing is focussed on strategic investment that delivers greater demand for pork:
 - APL allocates the maximum that APL can afford to projects. Reserves are not built up unnecessarily. In principle, APL invests this year's levies aggressively for the benefit of producers this year.
 - Our marketing strategy is to advertise (all the time) in the best way the evidence tells us how.
 - In these hard times we spend more on driving price promotions in retail and volume foodservice (\$473,000 more), and in mid-2016, the APL Board approved an additional \$900K in demand creation advertising.
 - APL also focuses activities more on products (such roast, mince and sausages) that evidence tells us are easier to get consumers to switch from other proteins.
 - The 2018-19 plan continues the "always on" plan. We have also planned improvements in efficiency, which we aim to do every year. The reason for that is that in a stable market pork consumption is growing faster than any other species (see graph on the following page).
 - APL does not broadcast specific advertising plans by channel, state or subject. This is because our competitors have more funds than we do, and would use these to counter our advertising efforts.



- Some of our marketing efforts include:
 - Continuation of the pork is versatile ads (see these at pork.com.au website)
 - A new Chinese New Year initiative commenced in 2018
 - Investing in the new Country of Origin Label mandatory requirements with brand owners who are PorkMark licensees
 - Use of key identities to promote pork, e.g. the recent Today Tonight piece with Colin Fassnidge (Chef), Mitch Edwards (APL) and Simon Downes (Canstar)
- Strategic advertising is done where most consumers live... meaning not much is seen in rural and regional TV, radio or print media
- APL continues to keep critical stakeholders (government departments, politicians, etc.) apprised of the issues the industry is going through and ensuring that any initiatives that might provide a level of relief are fully worked through

Prepared by:

Deb Kerr, General Manager Policy
4 May 2018