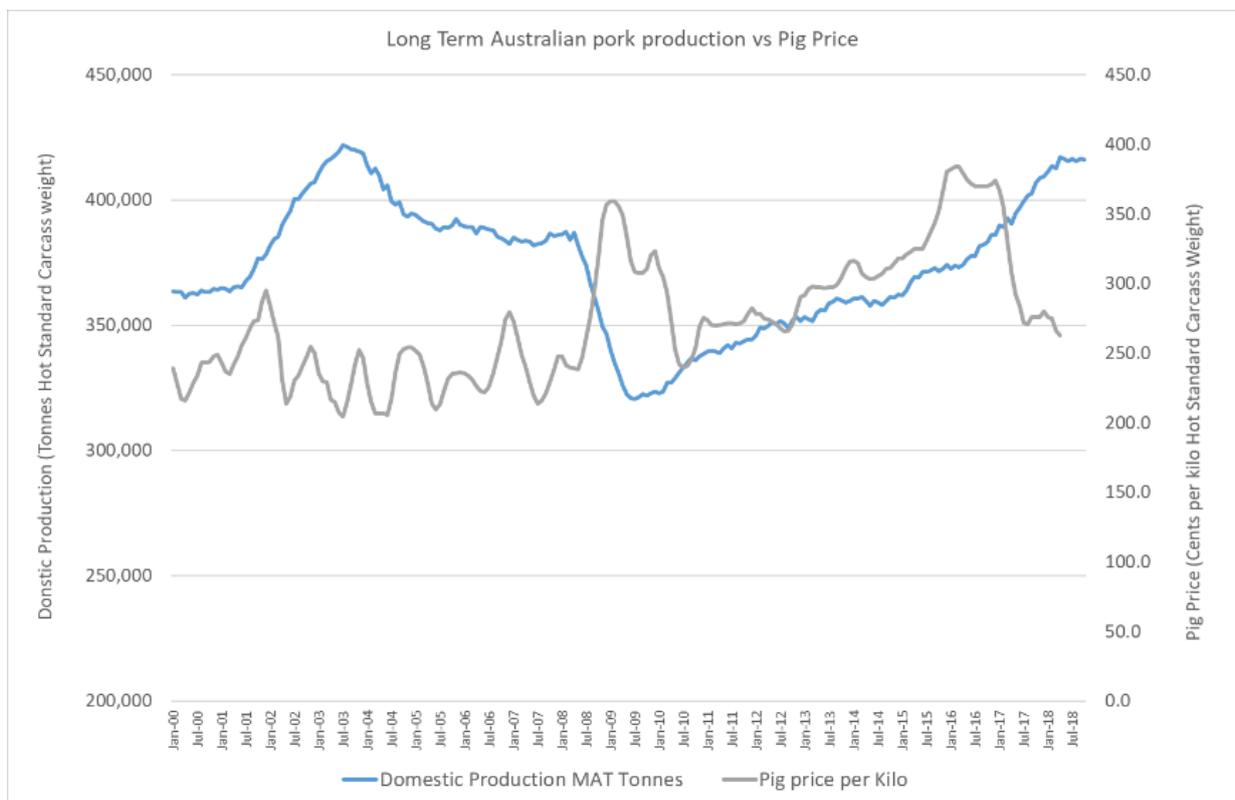


Extreme Price Downturn

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

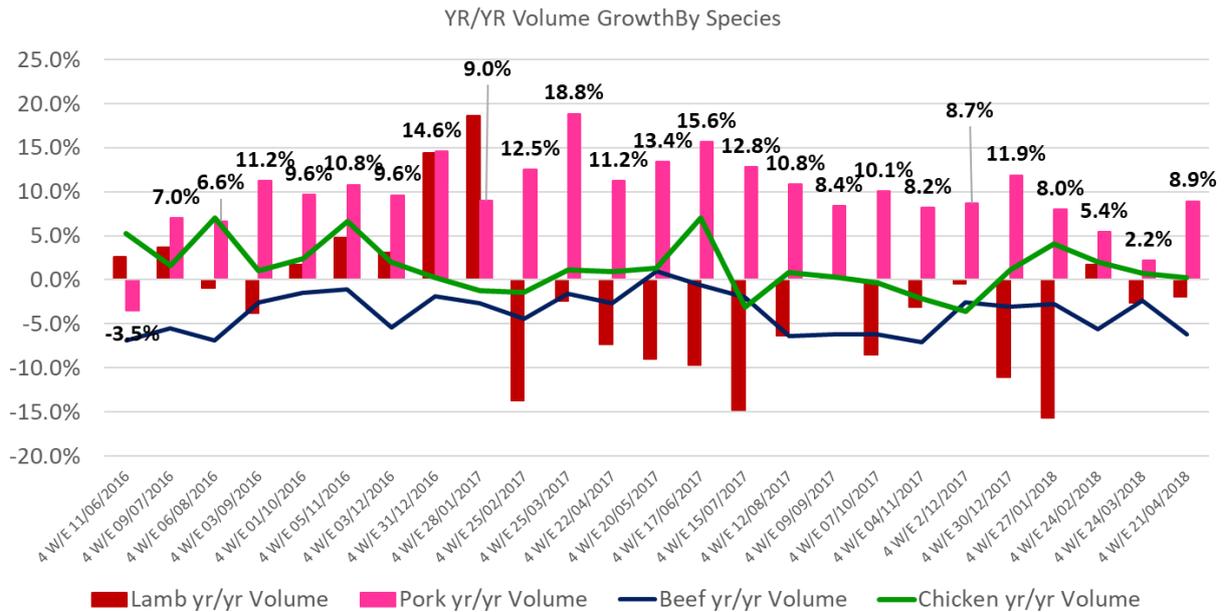
- As the weather cools, pigs eat more and grow more quickly, possibly reaching market weight 4 or 5 days earlier than normal. This causes a concertina supply impact around this time of year
- Additionally, due to the higher number of short weeks, processing bottlenecks exacerbate the supply issues

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

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