

# AUSTRALIAN PORK LIMITED

Annual Operating Plan Summary

2017/2018



## Message from the CEO

It is my pleasure to present the 2017-18 Annual Operating Plan for Australian Pork Limited (APL).

This Plan outlines the activities and associated resources envisaged to meet the objectives contained within the APL Strategic Plan 2015-2020. It is the fourth Annual Operating Plan operating under this Strategic Plan.

The APL Strategic Plan 2015-2020 was developed in 2014 in consultation with our key stakeholders – levy paying Australian pork producers and the Australian government. Additionally, discussions and consultations were conducted with other stakeholders such as members of the pork supply chain and other industry bodies. Since February 2016, a review of the APL strategy has been undertaken, which has resulted in some fine-tuning of our strategic options where greater emphasis has been given to (1) demand creation, given that industry production growth is resulting in greater numbers of pigs coming through in the months and years ahead, (2) continued focus on export market development into Asia, also to provide an outlet for these increased production volumes and (3) a quantum leap or disruptive approach to reducing pig production costs in Australia giving greater flexibility and protection for our industry.

APL budgeted income outlined in this plan has increased due to the projected growth in production volumes to 5.35 million slaughter pigs in 2017-18. The associated levy income alongside the government's investment in our industry through the matching funding for R&D activities (adding more than \$5 million to income) add up to our total income for the year being over \$22.5 million.

The dominant feature of the business environment for the industry at present is the collapse in pig prices since Christmas in 2016. These have largely taken the industry by surprise and are causing severe financial pain to a significant segment of our producers. Opinions around the reasoning for the collapse vary but seem to be attributable to three factors:

- Supply – between higher sow numbers, improved productivity conditions and larger carcasses, pork production to the end of March, 2017 is 5.2% higher than at the same time the previous year
- Imports – whilst traditional imports of middles and boneless legs remain constant supplying the bacon and ham markets, newer imports of retorted cooked ribs and bellies and necks often for importing and cooking locally, are eating into what was previously considered to be our own dedicated fresh pork markets
- Trade issues – such as the fire at the Swickers abattoir in November of last year, changed trading terms between key industry stakeholders and a series of short weeks affecting chilling, boning and slaughter capacity have spread up and down the east coast of Australia adding to the downward price pressures.

Our attempts to provide a stronger base of demand to support an increase in the presently low pig prices meant that we invested in higher advertising spend late in 2016-17, resulting in lower than projected reserves at the end of that year. Considering the pig pricing problems, there are no plans to replenish our reserves position in the coming year, and we'll be investing at a level in 2017-18 that results in a modest deficit. Nonetheless reserves will remain at or above the minimum required level.

Despite our pig pricing problems, the fundamentals of our industry's business at a consumer level are sound, with consumption continuing to increase – particularly for fresh pork. According to the Agricultural Bureau for Agricultural and Resource Economics and Sciences (ABARES), pork consumption per capita in Australia has overtaken beef consumption for the first time. The average Australian now consumes 27.9 kilograms of pork per year (versus 27.6 for beef), which is more than double the amount of 11.7 kilograms in 1975. At the last measure, 10.38kg of fresh pork is consumed per capita in Australia, Five years ago this figure was around 8.4kg.

Continuing this demand trend remains a clear objective for the coming year and a clear challenge in this area is to find ways to minimise the negative impact of the newer pre-cooked import cuts that have played a strong role in decreasing pig farm gate prices.

Other key components of this Annual Operating Plan include the continuing focus on developing Asian export markets for Australian pork, including China where we continue to work with the Australian government in attempting to set import protocols for our product. In mid-2017, a formal request for import protocols was made to the Chinese government authorities and a draft protocol for their consideration submitted. The timing of a successful outcome in this area is hard to predict but the market is large enough for us to be patient.

The coming year will hopefully see significant progress made in the setting of new Standards and Guidelines (S&G's) around pig welfare. Proceeding with this initiative was decided in late 2015-16 and despite the prolonged process, there has been some good progress made. It is expected that the new S&G's will include a mandatory sow stall use condition that matches up with the industry's voluntary initiative taken on in 2010.

As is the case every year, biosecurity and maintaining the high health status of our herd continues to be a critical part of our daily attention. This industry asset will be protected by APL with our greatest efforts, including the maintenance of our important science based import protocols, which restricts the import and use of fresh pork products.

Our research and development efforts continue to focus on (1) improving the outcomes of our demand creation activities, (2) reducing the risks to the industry around welfare and environmental regulation and (3) improving the competitiveness of our product. As mentioned, our present high cost of production is a risk to the industry in that it opens the door to new competitors taking share of our important markets. Our aim is to relook at how we can reduce these costs, taking a "disruptive" attitude to introduce new technologies and ideas from other industries that we can put to good use.

The Australasian Pork Research Institute Ltd (APRIL) will be the model to continue the highly collaborative approach to R&D that the Pork CRC has helped so much to foster. Memberships and structures for APRIL have now been formed. APRIL will help to continue the base funding of core research providers into the future, which has proven to be both a stabilising influence on research relationships as well as improving cost effectiveness of research provision.

As always, we design our operational plans with outcomes for our pig producers and the Australian government as our major investors in mind, but understanding that ultimately, the consumer (or the tax payer) will be the beneficiary of our labours. Maximising the benefits with our limited resources is our focus.

Andrew Spencer  
Chief Executive Officer

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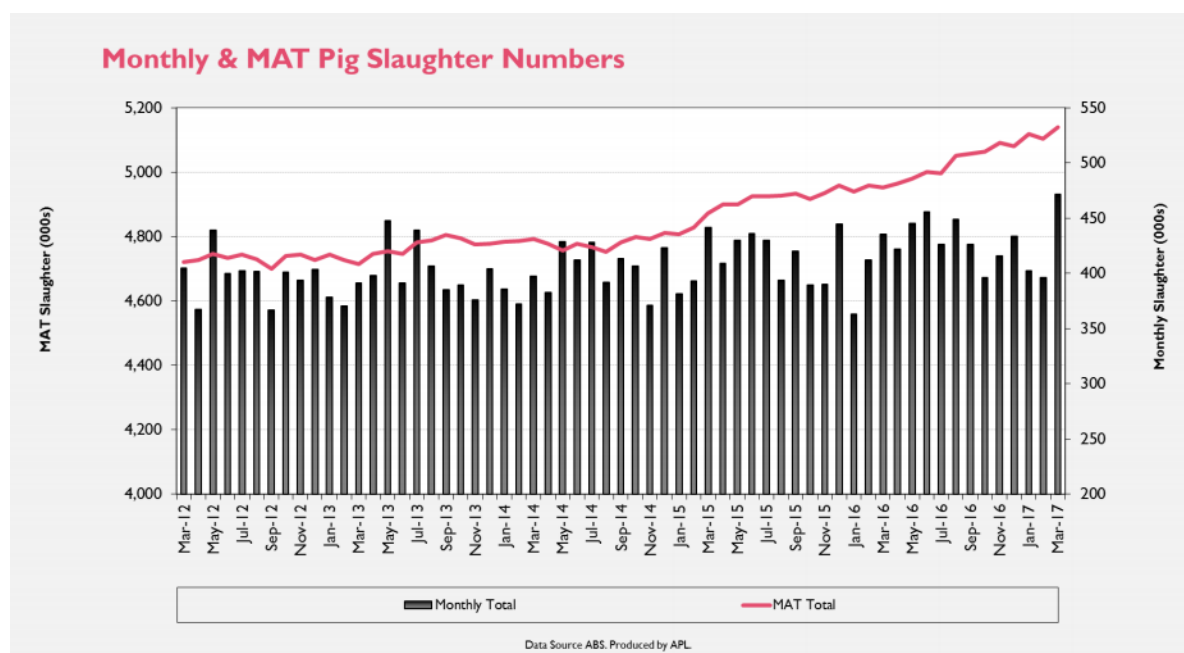
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# The Competitive Environment

## Domestic Market

Pig slaughter and pork volume growth has accelerated over the past 12 months, with slaughters up year on year by 3.8% and by volume, 5.2%. In the quarter to the end of March, growth against the same quarter last year is 7.6%, showing that the growth is still increasing. We expect slaughter numbers to hit 5.35 million by the end of June 2018, which will represent an increase of around 3.9% in slaughter terms.

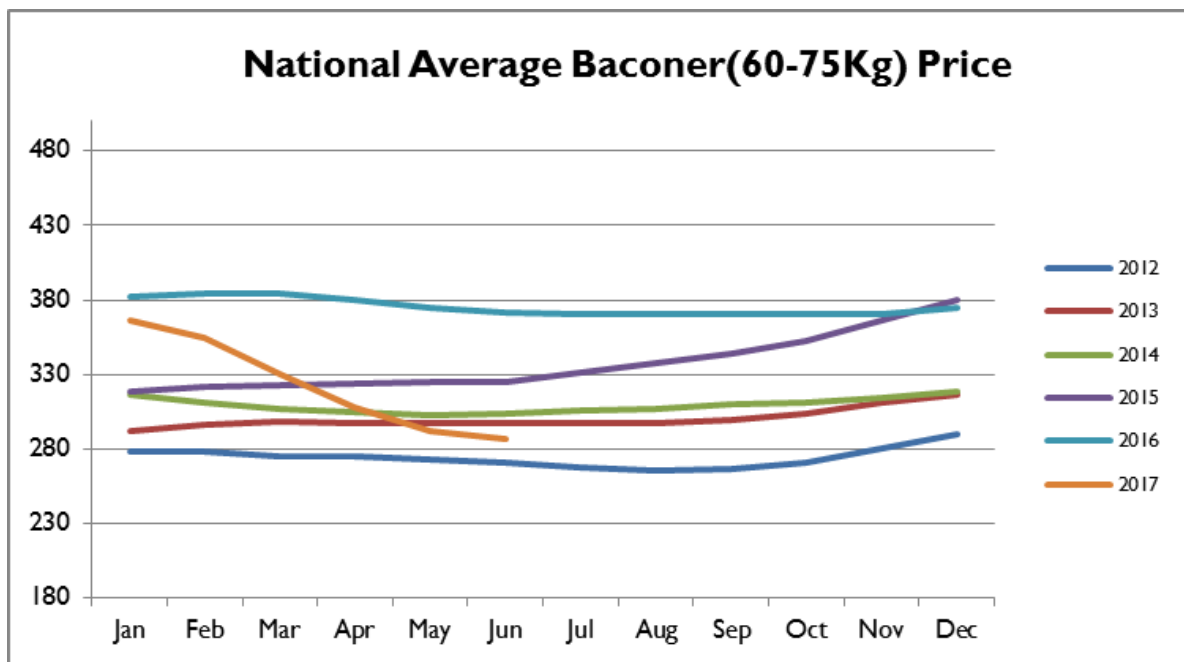


Graph 1: Monthly and Moving Annual Total Pig Slaughter Numbers in Australia 2012–2017

Strong pig prices for the 18 months up until the end of December 2016 have led to an increase in industry investment in increased production. This is still to be fully seen in production numbers being posted today. The low pig prices today are being sustained by the higher pig numbers being processed, despite the strong demand for pork from a consumer perspective.

Anecdotally, many producers are also pointing at a strong improvement in productivity, realised through higher farrowing rates and higher numbers of piglets born alive – all of this unexpected and is adding to the higher supply status quo.

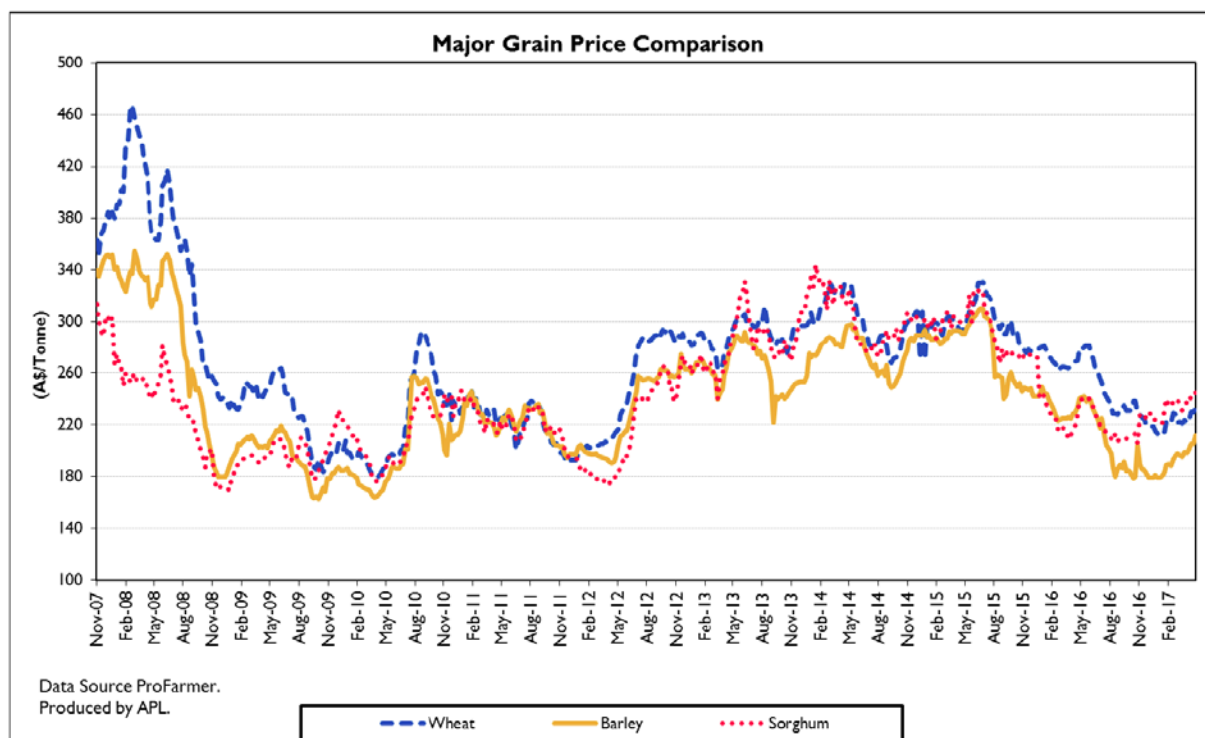
Pig producers would not complain if price patterns returned to those previously seen when we would have a dip in the middle of the year and improvements in the latter part of the year moving towards Christmas. This would mean that our prices should start to improve in the next four months or so but most commentator opinions are around a longer cycle of poor prices before improvements are seen.



Graph 2: Average Australian National Baconer Prices Surveyed by APL 2012–2017

## Grain Prices

Thankfully, grain prices have been relatively low over the past year. This has added to producer profitability or at least in the present circumstances, limited losses over what might have otherwise happened. Very good crop conditions globally continue to limit any increase in grain prices and this year, winter cropping conditions remain favourable in most districts for good crops.



Graph 3: Monthly Major Grain Price Trends 2007–2017



## Beef

Meat and Livestock Australia released the following projections for the beef industry in April 2017:

*'Low female cattle slaughter and high carcase weights have set the scene for 2017, with these two components filtering through to influence the 2017 April Cattle Industry Projections. While the January estimate of 7.1 million head cattle slaughter remains, much heavier carcasses will go a long way to alleviating the constrained supply pressure, with the result being only a slight (1%) year-on-year decline in beef and veal production.'*

*'Recent rainfall has rejuvenated the cattle market, with the higher year-on-year prices likely to carry through for the next quarter. Thereafter, and in line with the usual seasonal decline, the Australian cattle market will probably start to feel the pressure of what will be the beginning of the slow increase in the national herd, and ongoing softer global market conditions.'*

Cattle price expectations for the medium to longer term are therefore positive for healthy protein prices overall.

## Sheep Meats

Meat and Livestock Australia also released the following projections for the sheep industry in April 2017:

*'The April Australian Sheep Industry Update is influenced by extremely strong producer intent to retain ewes for flock rebuilding, and retaining Merino wethers for wool production. The result is an even greater year-on-year decline in lamb slaughter and production than what was originally forecast for 2017, and a significant contraction in mutton slaughter - in fact, to be the second lowest on record. The combined result is 2.7 million fewer sheep and lambs processed in 2017 which, when combined with high wool prices, suggests that Australian sheep and lamb markets are set to be the strongest ever – even with the poor April to June rainfall outlook.'*

*'Looking further ahead though, of concern is the continued struggle further up the supply chain, especially with some processors closing and the consequential reduced capacity once production levels return to those seen over the past five years'*

Similar to beef, production constraints for the sheep industry are also likely to support strong lamb prices.

## Chicken

Supermarket price wars on barbecued chicken has seen chicken consumption grow very steeply, but clearly at the cost of margins, although it might seem that some of the margin sacrifice may also have been made at the production end. Chicken continues to be the “price” buy at retail, significantly cheaper than other protein options.

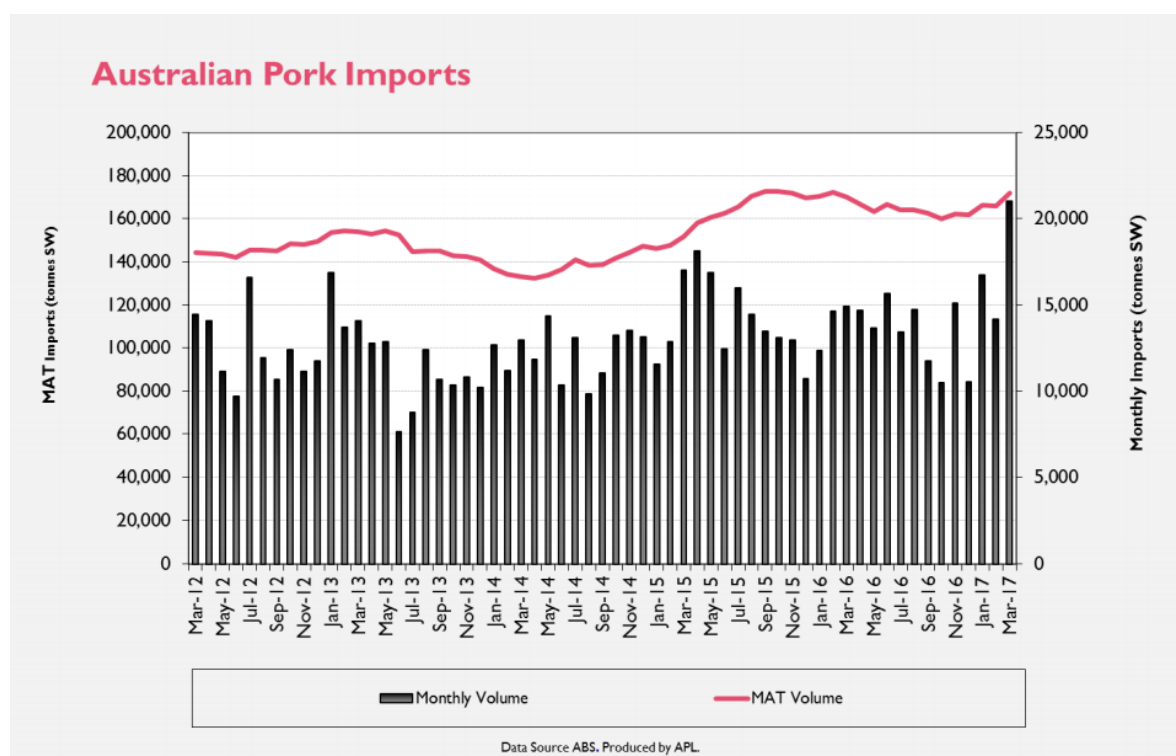
## Pork

Despite strong consumer demand for fresh pork, higher supply and increased volumes of pre-cooked imports have led to a steep and rapid decrease in prices back to close to cost of production for many pig producers.

## Pork Imports

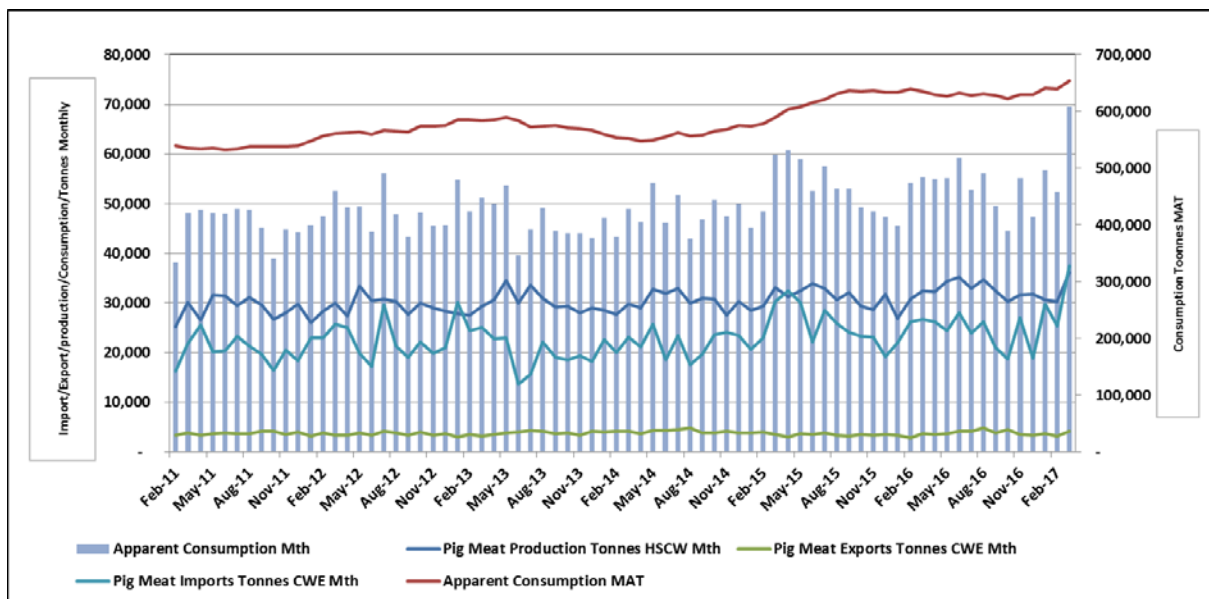
The past year has seen high imported pork volumes maintained consistent with expectations for middles and boneless legs required for bacon and ham production. On top of this has been increasing volumes of ribs, bellies and necks imported for cooking here and selling directly into the food service market based on low price and convenience. Some of these products are hard to identify in the import statistics (reported in the same lines as Spam for example) which we continue to try to find ways around.

High apparent consumption levels (see Graph 5) exist at present, the root cause linked to increased domestic production and maintenance of high import volumes. This measure has increased significantly over the past five or six year. Imports over the past year have maintained supplies of pork for processing but as discussed, have a mix of products resulting in competition for our fresh pork markets.



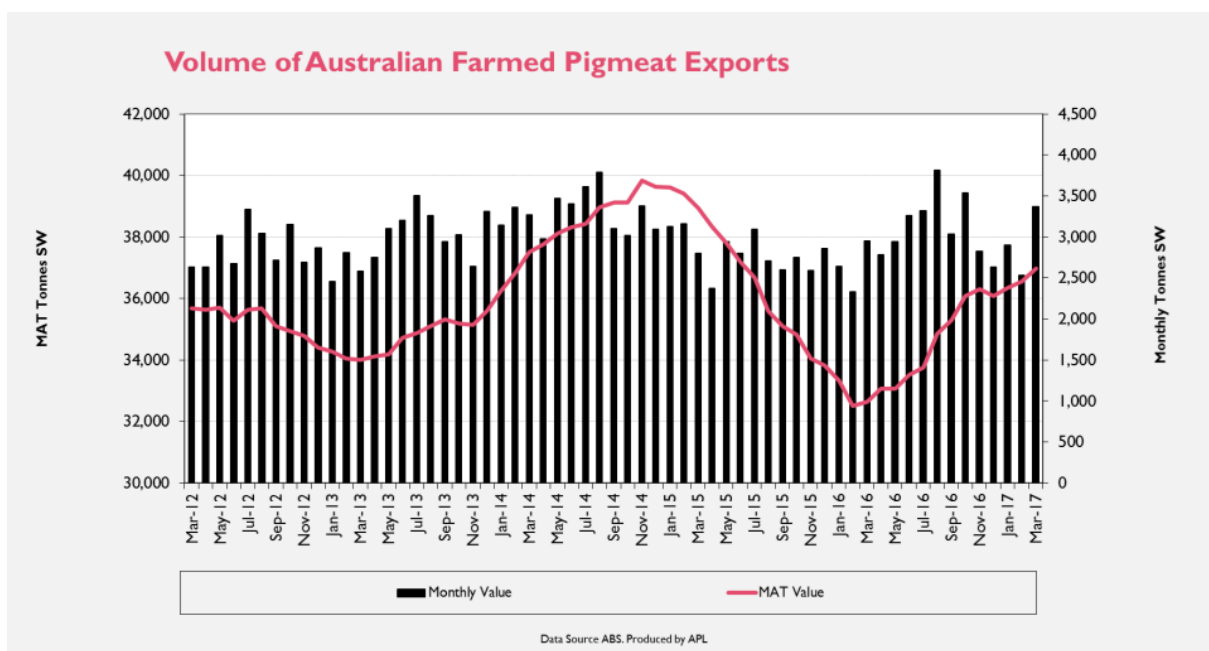
Graph 4: Australian Pork Import Volumes – Monthly and Moving Annual Total 2012–2017

Pork prices are low in North America but have improved markedly over the past few months due to new processing capacity coming on line. European prices are similarly improving with industry restructuring there reducing production and in China, the evolution of the industry towards industrialised production and away from back yards has meant disruptions to supply and higher prices.



Graph 5: Australian Pork Production, Imports, Exports and Apparent Consumption 2011–2017

## Export Market



Graph 6: Australian Pork Export Volumes – Monthly and Moving Annual Total 2012–2017

Export volumes and values remain healthy driven by strong business into Singapore and improving business into Hong Kong, Papua New Guinea and the Philippines.

# Operational Planning Principles

This section of the Annual Operating Plan outlines some of the working principles in structuring our plans to enable a better understanding of the links between the APL Strategic Plan 2015–2020 and the content of this document.

## Activity Hierarchy

The APL Strategic Plan 2015–2020 was developed in association with our key stakeholders and others with an interest in our industry.

In this Annual Operating Plan, every activity is designed to contribute to the achievement of the Strategic Plan, directly or indirectly. This discipline is formalised through the hierarchy of activities back to the strategic objectives of the Strategic Plan according to the following order:

Level 1 – Strategic Objective (five existing for the full term of the Strategic Plan)

Level 2 – Program (three per strategic objective for the full term of the Strategic Plan)

Level 3 – Project (may change from year to year)

Level 4 – Activity (may or may not exist under a project)

The table below provides an overview of the structure of the Strategic Plan, including the five Strategic Objectives, their relevant outcome statements and the responsible strategy champion.

Strategic Objectives Programs	Outcome Statement	Strategy Champion
<b>Growing Consumer Appeal</b>	"Making Australian pork more uniquely valuable to consumers and increasingly a part of their eating pleasure, resulting in repeated choice."	General Manager Marketing
Better Pork Pork Made More Popular Increasingly Different		
<b>Building Markets</b>	"Using insights to develop markets that offer attractive demand for our products, our producers and our value chain collaborators."	General Manager Marketing
Market Insights Domestic Market Development International Market Development		
<b>Driving Value Chain Integrity</b>	"Secured confidence in Australian pork products in their source, the compliance with expected standards and aligning on-farm product with consumer expectations."	General Manager Research and Innovation
Trust in Pork Provenance Pork Quality Assured Fairness in Risk and Reward		
<b>Leading Sustainability</b>	"Remaining in step with society by reflecting community values in our ethics, our healthy herds and operating our industry responsibly and profitably."	General Manager Policy
Addressing Societal Needs Healthy Herds and Farms Continuous Productivity Growth		
<b>Improving Capability</b>	"The Australian pork industry and APL leading the way in innovation, accountability and unity."	General Manager Corporate Services
Applied Learnings Building Industry Image & Reputation Operational Effectiveness		

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## Key Performance Indicators and Result Areas

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The APL Strategic Plan 2015–2020 includes aspirations for industry achievement towards which APL activities are designed to positively contribute. These are termed “Key Result Areas” and cover such measures as the consumption of pork, the value of the industry at the farm gate, industry productivity measures and shifts in production systems.

It is recognised that APL does not have full control over the achievement of these industry aspirations but likewise, it is clearly understood that we have some influence. By using a mixture of internally focussed Key Performance Indicator measurements alongside the externally focussed Key Result Area measures, it is envisaged that we can have a strong and objective view about the well-being of the industry and the scale of APL’s contribution to it.

Previous performance reviews of APL have queried the relevance of measuring the performance of APL through the industry’s success in achieving these externally focussed Key Result Areas. We have a strong belief that our performance culture is one that can discriminate between what we can fully control and what we can only partially impact and that partial impact is not a reason to avoid making a positive contribution.

# Strategic Objective I – Growing Consumer Appeal

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## Industry Outcomes

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The Strategic Plan outcome statement is “Making Australian pork uniquely valuable to consumers and increasingly a part of their eating pleasure, resulting in repeated choice.” The review of this strategy over the last few months has not changed the direction of demand creation. It has just increased the targets for per capita consumption growth.

This objective is the home of demand creation, and the combination of consistent activity in improving quality assurance and consumer inspiration is accelerating the growth of both consumer enjoyment and repeated purchase.

The elements of these programs have evolved through testing in the last financial year in order to make their synergistic effects more powerful demand creators.

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## Program 1: Better Pork

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This program, whilst funded from the continuous data and advertising tracking budget, rather than needing its own separate budget, will continue to measure the perceived quality of eating Australian pork cooked at home in Australia.

This program overlaps with SO2 in that both domestically and internationally there are opportunities for premium pork products.

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## Program 2: Pork Made More Popular

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The rapid pig price decreases in the first five months of 2017 have made this program more urgent. Fortunately, in 2016 several new methods of demand creation were trialled. This enabled a rapid response with additional investment. Increasing popularity in this case remains focussed on the in-home consumer but increasingly encompasses more of the everyday out-of-home food outlets. Both awareness of Australian pork as well as positive associations have been built by continuous advertising over the 2010-2017 period. The effectiveness of the outcomes to date justify continued investment in this strategy.

High levels of investment in the versatility and familiarity of pork will continue at the elevated levels of 2015-16 with investment in helping Australians increase both their anticipated and actual eating pleasure from Australian pork.

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## Program 3: Increasingly Different

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This program is expanding its focus from those consumers and supply chains that eat and sell Australian pork in ham, bacon and salami to all influential consumers and ambassadors of pork. 2017 has seen an increase in competition from imported pork products in pre-prepared meals (both cooked in Australia and UHT style ribs cooked to very high temperatures overseas).

This program will receive increased senior management time in the coming year with a focus on differentiating Australian on positive grounds and collaborating with and celebrating retailers who support Australian farmers.

Most Australians prefer to buy Australian grown pork both to support farmers and because they believe that Australia's farming standards are high, resulting in great products. This program seeks to reinforce and validate those beliefs through the continued promotion of the PorkMark.

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## Risks & Opportunities

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- Risk – lack of support through supply chains of the planned eating experience initiatives. Mitigation plans include intense business performance monitoring and communication seeking additional collaboration.
- Opportunity – The initiatives that are planned are continuations of activities already undertaken; as such there are opportunities to improve in-market execution and synergy, two of which are versatility and flexibility.
- Opportunity – Australian pork sales currently have accelerating growth momentum, Growth in itself has a propensity to attract additional opportunities. This may take the form of innovative new products, more attention from supply chains and retailers and increased media exposure.

## Strategic Objective 2: Building Markets

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### Industry Outcomes

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The Strategic Plan outcome statement is “Using insights to develop markets that offer attractive demand for our products, producers and our value chain collaborators”.

The projects in this Strategic Objective effectively bookend “Growing Consumer Appeal”.

Program 1 uncovers demand and commercial opportunities. Consequently, whilst Strategic Objective 1 invests most of the “in-market activity” money, Strategic Objective 2 is where the marketing leaders to majority of the work. We use consumer, shopper and value chain insights to drive all of the activities in-market. In the course of the last year, this focus has increased due to the acquisition of new and exciting data from the foodservice arena. This is also an area of market information service to other divisions within APL, as required.

This program also measures outcomes for many of our Strategic Objectives, which are closely scrutinised to provide learnings for future improvements.

Programs 2 & 3 essentially take the appeal created in Strategic Objective 1 and help convert consumer appeal into attractive outcomes for producers and all Australians.

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### Program 1: Market Insights

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This program is responsible for the identification, quality control, validation and interpretation of qualitative and quantitative data into market insights.

Whilst the quantitative information collected will continue to measure performance and outcomes, the insight’s specialists who review and report the data spend most of their time in exploratory mode, seeking to build new hypotheses about demand creation to test.

This year also includes additional qualitative and quantitative research activities across the whole consumer adoption process for the main grocery buyers of tomorrow. This is not just about younger food buyers but also about how the technological change in the media environment affects how consumers identify, decide to try, and evaluate new and existing repertoires. This is a key driver of how they shop for meat to be consumed both in-home and out-of-home.

We have found the focussed integration of data sources enables us to explore market leading thoughts with value chains and retailers. The continuous stream of knowledge and insight helps maintain positive working relationships and mutually beneficial in-market activities throughout the value chain.

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### Program 2: Domestic Market Development

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This program seeks to identify and transfer insights about consumer and shopper behaviour to butchers, restaurants, supermarkets, caterers and other consumer service businesses to help them help APL improve Australian pork sales.



For confidentiality reasons, we have insights specialists allocated to each major chain or channel. This aids trust and collaboration in combining APL data with other data sources to guide initiative selection and execution.

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## Program 3: International Market Development

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International markets have been given an increasing focus for the Australian pork industry in the recent strategy update. Initial investigations have determined that a sustainable model can exist at the higher end (rather than commodity end) of the market. In the last two years, new improved pork has successfully been developed and tested both at home and overseas. In 2017-18, numerous trials are planned to learn our way into consistently replicating and improving uniquely Australian, high quality and discernibly different pork.

APL is also actively pursuing supply chains that are interested in taking additional advantage of recent free trade agreements in order to expand Australian pork exports in the shorter term.

While Australian pork enjoys access to many export markets, some remain a challenge. Work will continue in 2017-18 on new market access and the protocol development processes required to make this happen, along with collating current knowledge about our trading environment and barriers to expanding market access.

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## Risks & Opportunities

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- Risk – The expanded consumer and channel research may stretch APL's capacity to execute the research to the usual high quality standards expected. New information is a currency that is a requirement for fast moving retailers in particular. This risk has largely already been mitigated through the development of internal experts and a back-up network of tested consumer research specialists and firms.
- Opportunity – APL staff are well practiced and with many collaborators have broad and deep relationships. This increasingly gives us access to greater quantities of data, enabling additional insight and understanding, hopefully resulting in improved activities and outcomes.

# Strategic Objective 3: Driving Value Chain Integrity

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## Industry Outcomes

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The Strategic Plan outcome statement is “Secured confidence in Australian pork products in terms of their source, the compliance with expected standards and aligning on-farm product with consumer expectations.”

The focus of this year is to advance the systems that better enable the pork industry to demonstrate greater compliance against industry and government standards to maintain consumer and community confidence and trust in Australian pork products.

These initiatives will be delivered via a partnership approach with producers, government and supply chain partners.

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## Program 1: Trust in Pork Provenance

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The need for greater transparency and traceability in the pork value chain is pivotal to achieving trust in Australian pork domestically, as well as in export markets, and across a range of pork products.

This program is focussed on the adoption and implementation of programs to enhance consumer trust in the provenance of Australian pork in domestic and export markets and across a range of pork products.

The key projects are:

- (i) Physi-Trace traceability project – involves industry adoption of the traceability initiatives, including retailers, through optimising the system’s design on the basis of cost, accuracy/robustness and timeliness;
- (ii) Trust in Australian Pork Quality Standards Program – that will demonstrate compliance verification for a number of pork product and program descriptors and claims, supported by the integration of the Physi-Trace system into APL’s client relationship management system.

Key outcomes from this program will be stakeholder assurance that industry can reliably verify compliance of provenance and label claims. This program is supported by the APIQ✓® program and PigPass to underpin the quality, integrity and traceability of Australian pork products in both domestic and overseas markets.

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## Program 2: Pork Quality Assured

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The Australian Pork Industry Quality program, APIQ✓®, is an on-farm quality assurance system and is based on managing on-farm risks by following good agricultural practices, using the principles of Hazard Analysis and managing Critical Control Points (HACCP). In addition, APL undertakes a

number of activities to underpin the Pork - Australian Export Meat Inspection System (Pork-AEMIS) that address food safety issues (primarily related to microbial hazards) to assist the development of risk-based systems to protect public health while minimising technical market access risks and assure community and consumer trust.

The key focus in this program is:

- (i) implementation of the revised APIQ✓<sup>®</sup> standards, systems and administration together with proposed changes to an independent third party auditing system; and
- (ii) activities that encompass the industry's food safety R&D with a specific focus on abattoir process control, review of inspection procedures and disposition judgements for the Pork-AEMIS and development of national standards, recording and reporting frameworks to enable consistencies in the reporting, recording and analysis of peri-mortem information to producers, veterinarians and other key stakeholders to be achieved. Supply chain benefits arising from reporting of consistent peri-mortem information by pork processors and reporting of this data to pig producers will be measured.

Key outcomes from this program will be ongoing adoption of APIQ✓<sup>®</sup> standards by producers and recognition of the APIQ✓<sup>®</sup> program by regulators, retailers and supply chain partners.

The science-based outcomes from the food safety program will be used to support continuing reforms of the export meat inspection, verification and certification system to reflect the needs of the pork industry in its current and future markets.

The peri-mortem projects will provide timely information concerning overall carcass quality, prevalence and severity of disease/pathological conditions identified by meat inspectors to producers to inform the overall health status within the herd and stock management decisions.

In addition, these projects provide for the ongoing engagement with specific groups of stakeholders, particularly with the Pork Processor Referral Group (PPRG) and specialist pig veterinarians.

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### Program 3: Fairness in Risk and Reward

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The sectors within the pork value chain need to be consumer focused and must be better linked to enable the effective flow of market signals. In addition, it is imperative that a more efficient supply chain with better links between product value, quality and integrity enables value generated through the supply chain, including on farm, to be rewarded at the appropriate point in the supply chain.

This program will look to implement technologies and systems that provide a better understanding of what contributes to the right type of pig production and carcase to better match the buyers' needs.

One of the projects within this program relates to the continuing focus on identifying and evaluating objective carcase measurements suitable for pork to support industry endeavours to provide consistently high quality pork to consumers.

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## Risks & Opportunities

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- Risk – the use of the Physi-Trace technology by the pork industry could be limited by the system's design and the impact this has on its cost, reliability/robustness and timeliness of delivery of traceback results. This will be mitigated by the development of well considered and industry endorsed plans to enable the use of this technology by the Australian pork industry to support provenance and Australian, or not, claims.
- Risk – the potential for supply chain partners to not engage and look to prevent reward to flow to appropriate points within the supply chain. Whilst APL cannot ever claim to mitigate this risk, closer engagement with partners via projects including the PorkScan carcase classification system will strengthen relationships along the value chain that may allow reward to flow to appropriate value chain partners.
- Opportunity – ability for pig industry to demonstrate higher market compliance against agreed standards
- Opportunity – ability for Australian pork to demonstrate its product integrity claims against imported pork and pork products
- Opportunity - improve the already high regard for and adoption of the Australian Pork Industry Quality program, APIQ✓®, by producers, retailers, and regulators.
- Opportunity – provision of an additional management tool to monitor on-farm health status and general stock management.

## Strategic Objective 4: Leading Sustainability

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### Industry Outcomes

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The Strategic Plan outcome statement for this objective is “Remaining in step with society by reflecting community values in our ethics, our healthy herds, and operating our industry responsibly and profitably”.

The focus this year continues to deliver a suite of targeted projects under programs that will address community attitudes towards pig farming, deliver healthy herds and farms, whilst continuing to improve productivity. Projects that will build on our demonstrated societal leadership cover areas such as environmental management, animal welfare, disease incursion capability, exotic disease risks and biosecurity management. Moreover, the focus on improved reproductive outcomes and reducing reproductive challenges will be critical to the improved productivity required for profitable pork businesses.

Critical to the success of this strategic objective are our contributions to plans such as the Pork R,D&E Strategy and the Climate Research Strategy for Primary Industries, and our partners, including the Pork CRC, Animal Health Australia, and SAFEMEAT.

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### Program 1: Addressing Societal Needs

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A better informed and educated community about how pork is produced in Australia can only continue to grow and foster community loyalty, trust and support. The Australian pork industry has demonstrated global leadership in programs such as “Shaping our Future”, which seeks a voluntary phase out of the industry’s use of gestation stalls by 2017. Societal expectations for leadership and sustainability will focus a broad suite of programs covering regulatory, policy and community areas, with a focus on improving the image of our industry to maintain the confidence of consumers, government, our markets and the Australian public.

This program will seek to implement activities that will recognise and address societal needs for the ethical and sustainable production of pork that will underpin whole of community trust.

Ongoing projects in this program will look at collaborative activities, with organisations such as Climate Research Strategy for Primary Industries (CCRSPI), the Pork CRC and SAFEMEAT. Others will seek continuing improvements of our high animal welfare standards, domestic abattoir compliance and sale yards pig management. Continuing APL’s leadership in environmental management is demonstrated through the provision of best management practice (BMP) information, investigation of new and emerging technologies (such as novel fertilisers and feeds and water purification technologies), validation of industry data such as odour emission rates and strategies to mitigate greenhouse gases through the development of new emission reduction fund (ERF) technologies.

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## Program 2: Healthy Herds and Farms

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To remain profitable, producers must safeguard the health and wellbeing of the pig herd, while reducing input costs and improving productivity. Risks from the global trading environment, including the movement of people and goods, are ever present. Australia's science based biosecurity protocols mean that we are one of the few countries in the world that has a pig herd with a high health status. This is a highly valued asset, which underpins, supports and protects our reputation for pork quality and safety.

This program will provide knowledge covering a number of exotic pathogens to both inform and underpin robust biosecurity protocols for both individual enterprises and industry to ensure that the Australian pork industry remains free of the exotic pig pathogens that have devastating impacts on pork industries in other countries. Ongoing projects include comprehensive and critical reviews of the scientific literature, on-farm zoonotic studies, provision of a manual to understand and minimise the impacts of stress related risk factors on pork production, and the ongoing engagement with specific groups of stakeholders, especially with specialist pig veterinarians and smallholder producers.

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## Program 3: Continuous Productivity Growth

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Along with fresh pork, Australia's pork biosecurity protocols also prohibits the importation of genetic material and live pigs, including new genetic lines with higher productivity. As a result, the Australian pig herd is a 'closed herd', which has consequential impacts on Australia's on-farm productivity. Key measures such as the cost of production and the number of pigs sold per sow per year lag significantly behind North America and the EU countries. Nonetheless, the Australian pork industry's investment in continuous productivity growth is important to close the productivity gap.

This program will consolidate its approach on the adoption and implementation of programs that underpin continuous productivity growth for the pork industry by focusing on improving reproductive performance of the Australian pig breeding herd, enhancing the viability of the progeny especially gilt progeny and increasing the proportion of females in the litter.

The key areas of focus will be (i) to increase the number of pigs born and weaned per sow per year, and to investigate technologies to deliver more female pigs within each litter to minimise boar taint; and (ii) the growth performance of the gilt progeny in particular given the high productivity losses associated with this group.

The key outcome will be continuous productivity growth for the pork industry as seen by an improved margin over feed cost (MOFC) through a decreased cost of production and an increase in the number of pigs sold per sow per year.

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## Risks & Opportunities

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- Risk – attenuation or loss of government and societal support through major animal welfare incidents
- Risk – that non-compliance with traceability and biosecurity may inadvertently allow exotic and endemic disease incursions to occur

- Risk – that productivity and profitability improvements may be eroded by other factors outside of the industry's control
- Risk – uncertainty in the legislative arrangements that underpin industry environmental management and live pig traceability (PigPass) may erode continued leadership
- Opportunity – industry ongoing demonstration of societal and global leadership in environmental management and animal health and welfare
- Opportunity – through traceability and on farm and at border biosecurity measures, ensure Australia remains free of exotic diseases currently decimating pig herds across the world
- Opportunity – to continue agricultural industry leadership in environmental management and antimicrobial stewardship.

## Strategic Objective 5: Improving Capability

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### Industry Outcomes

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The Strategic Plan outcome for this objective is for “The Australian pork industry and APL leading the way in innovation, accountability and unity.”

The 2017-2018 operational year will focus on continuing and increasing awareness of new and available technologies. The availability of mobile phone applications, including the Tech Tool Box, will support the expansion of a better informed and connected stakeholder base and result in increased awareness and uptake of R,D&E technology transfer and adoption to all of industry. Achieving efficiencies using technology throughout the entire pork supply chain supports the industry’s capacity to compete on cost and to identify production and market opportunities.

Australian pork has an image of being wholesome, nutritious and an affordable protein. These, in concert with the positive move away from sow stalls to group housing for pregnant sows, are positive communication platforms from which the industry continues to build better connections between community and farmers.

Openly and transparently communicating where pork comes from and how farmers care for their pigs leads to increased trust and continued community support for the Australian pork industry.

APL continually strives for business efficiencies that reflect the organisations leadership in the agriculture sector and demonstrating value for the industry for levies paid by pork producers and R&D matching funds from the Australian Government.

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### Program 1: Applied Learnings

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Stakeholders access information through a range of communication channels that specifically suit their needs and increasingly, this dissemination is being sought via modern IT solutions and social media in addition to traditional face-to-face engagement.

This program will focus on refining our IT platforms to improve our reach to better enable our transfer and adoption of technologies developed. Our programs will also continue to utilise the valuable network channels that key influencer groups provide to more effectively disseminate our messages to increase their awareness of new technologies and the expected benefits resulting from the adoption of these technologies, especially on-farm by producers.

Additionally, this program will seek to continue to enhance the capacity and capability of students, industry and research providers to implement technologies on farm, develop solutions across a range of the supply chain disciplines as well as develop a course for young industry leaders to strengthen their skills, capability and vision for the future of the Australian pork industry.

The key outcome will be a shorter lag time between the development and adoption of technologies, which ultimately results in improved productivity across the whole supply chain.



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## Program 2: Building Industry Image and Reputation

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The focus for this program will be to build better and more effective communication forums to engage with the community and to share how pork producers care for their animals. Project outcomes will assist to inform those who want to know about what happens to the animals all the way along the supply chain, to put the pork industry into context and show the community that the industry has nothing to hide.

The reach and impact of the outcomes of the work done by APL, on behalf of its levy paying producers also includes dialogue and exchange of views, ideas with key external stakeholders. These stakeholders include state and federal governments, educational institutions, research and development organisations, scientific forums, supply chain and producer groups, as well as state and federal agricultural representative organisations and the general community.

The outcome of this program is to highlight the Australian pork industry as a global leader in demonstrating and communicating its effectiveness as a responsible and progressive producer of pork. Moreover, finding new ways to engage in difficult social licence conversations will be a key project during 2017-18.

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## Program 3: Operational Effectiveness

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APL continues to seek opportunities to achieve business efficiencies for and on behalf of its members and key stakeholders (levy payers and the Australian Government). The operational effectiveness projects are designed to ensure APL is considered as an organisation with a corporate governance culture that exceeds its obligations as well as being a safe and fair work place.

Commitment to organisations like the National Farmers Federation (NFF) and the Council of Rural Research and Development Corporations (CRRDCs) are also included under this program.

The projects under this program support delivery of effective programs as well as ongoing business efficiencies and best business practices. Appropriate programs support delivery of value to APL members, stakeholders and the agricultural industry and supply chain more broadly. This is our value proposition for members of APL as their national representative body.

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## Risks & Opportunities

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- Risk - Loss of global competitiveness through lack of adoption on on-farm technologies
- Risk - Loss of confidence by the community in Australia's pork farmers
- Risk - Key stakeholders challenge Australian Government funding of APL programs
- Risk - Loss of business reputation as a progressive, accountable, fair and honest work environment
- Opportunity - Better positioning of and competitive advantage for Australian pork in emerging markets
- Opportunity - Up-take of new technologies drives down production costs and lifts returns

- Opportunity - Increase in market share for Australian pork
- Opportunity - APL's positive reputation ensures key stakeholder confidence
- Opportunity - APL's capacity to protect industry interests leads to growth in membership.

## Government Research Priorities Attributed to R&D Program

	Advanced Manufacturing	National Research Priorities							
		Soil and Water	Transport	Cybersecurity	Health	Resources	Food	Energy	Environmental Change
<b>Rural RD&amp;E Priorities</b>	<b>Advanced technology</b>	<b>Biosecurity</b>	<b>Soil, water and managing natural resources</b>	<b>Adoption of R&amp;D</b>	<b>Other Research</b>				
Transformational Market Growth									
Premium Pork									
Differentiation									
Continuous Data and Advertising Tracking									
Trust in Pork Provenance									
Globally Competitive Australian Meat Value Chains									
Food Safety									
CCRSPI									
Animal Welfare Initiatives									
Environmental Management									
Pork CRC									
Breeding Females									
Environment and Health									
PigPass									
Exotic Disease and Biosecurity									
Reproduction									
Growth and Development									
Pork RD&E Strategy									
Fostering New Capability									
Bringing Influencers Together									
Adoption									
Building Technical Capacity									
Industry Economic Analysis									
Annual Survey									
Industry Engagement and Events									
Communication and Society									
Communication and Industry Promotions									
Issues Management and Support									
Omnipig									
Specialist Groups/RDAC meetings									
AGM & Conference									
CRRDC Activities									
Benefit Cost Analysis									
ICT									
Human Resource Management									

## Strategic Objective – R&D Expenditure by National Research Priorities

	AOP Budget	National Research Priorities								
		Advanced Manufacturing	Soil and Water	Transport	Cybersecurity	Health	Resources	Food	Energy	Environmental Change
Rural Research & Dev Priorities		Advanced technology	Biosecurity	Soil, water and managing natural resources	Adoption of R&D	Other Research				
Objective 1. Growing Consumer Appeal	\$521,381	\$52,138	\$0	\$0	\$0	\$469,243				
	5%	0.5%	0.0%	0.0%	0.0%	4.2%				
Objective 2. Building Markets	\$1,593,322	\$477,997	\$0	\$0	\$0	\$1,115,325				
	14.4%	4.3%	0.0%	0.0%	0.0%	10.0%				
Objective 3. Driving Value Chain Integrity	\$1,118,705	\$111,871	\$335,612	\$0	\$671,223	\$0				
	10.1%	1.0%	3.0%	0.0%	6.0%	0.0%				
Objective 4. Leading Sustainability	\$5,124,133	\$1,537,240	\$922,344	\$1,127,309	\$1,537,240	\$0				
	46%	13.8%	8.3%	10.2%	13.8%	0.0%				
Objective 5. Improving Capability	\$2,487,880	\$248,788	\$373,182	\$373,182	\$1,243,940	\$248,788.00				
	22.4%	2.2%	3.4%	3.4%	11.2%	2.2%				
Unallocated	\$254,579	\$0	\$0	\$0	\$0	\$254,579				
	2.3%	0.0%	0.0%	0.0%	0%	2.3%				
Totals *	\$11,100,000	\$2,428,033	\$1,631,137	\$1,500,491	\$3,452,403	\$2,087,935				
Percentage	100%	21.9%	14.7%	13.5%	31.1%	18.8%				

* Direct Project	\$7,889,731
Allocated Project	\$3,210,269
Total	\$11,100,000

## Financial Budget – 2017/2018

(\$)	CEO/ Board	CSD	Marketing	Res. & Innov.	Policy	Total
Revenue - Levies	\$17,387,500					\$17,387,500
Revenue - R&D Matching funds	\$5,550,000					\$5,550,000
Revenue - Other	\$379,000					\$379,000
<b>Total Revenue</b>	\$23,316,500					\$23,316,500
Strategic Objective 1 - Projects	\$0	\$0	\$6,207,417	\$45,000	\$0	\$6,252,417
Strategic Objective 1 - Allocated Project Costs	\$0	\$0	\$1,179,869	\$0	\$0	\$1,179,869
Strategic Objective 1 - Total	\$0	\$0	\$7,387,286	\$45,000	\$0	\$7,432,286
Strategic Objective 2 - Projects	\$0	\$0	\$1,932,000	\$0	\$375,000	\$2,307,000
Strategic Objective 2 - Allocated Project Costs	\$0	\$0	\$1,986,474	\$0	\$176,989	\$2,163,463
Strategic Objective 2 - Total	\$0	\$0	\$3,918,474	\$0	\$551,989	\$4,470,463
Strategic Objective 3 - Projects	\$0	\$0	\$0	\$991,544	\$0	\$991,544
Strategic Objective 3 - Allocated Project Costs	\$0	\$0	\$0	\$745,383	\$0	\$745,383
Strategic Objective 3 - Total	\$0	\$0	\$0	\$1,736,927	\$0	\$1,736,927
Strategic Objective 4 - Projects	\$0	\$0	\$0	\$4,093,127	\$542,220	\$4,635,347
Strategic Objective 4 - Allocated Project Costs	\$0	\$0	\$0	\$830,776	\$586,277	\$1,417,053
Strategic Objective 4 - Total	\$0	\$0	\$0	\$4,923,903	\$1,128,497	\$6,052,400
Strategic Objective 5 - Projects	\$122,434	\$390,055	\$0	\$1,291,398	\$337,000	\$2,140,887
Strategic Objective 5 - Allocated Project Costs	\$156,974	\$41,528	\$0	\$670,154	\$208,559	\$1,077,215
Strategic Objective 5 - Total	\$279,408	\$431,583	\$0	\$1,961,552	\$545,559	\$3,218,102
<b>Total Direct Project Costs</b>	\$122,434	\$390,055	\$8,139,417	\$6,421,069	\$1,254,220	\$16,327,195
<b>Total Allocated Project Costs</b>	\$156,974	\$41,528	\$3,166,343	\$2,246,312	\$971,826	\$6,582,982
<b>Total Unallocated Costs</b>						\$552,018
<b>Total Corporate Costs</b>	\$156,974	\$41,528	\$3,166,343	\$2,246,312	\$971,826	\$7,135,000
<b>Total Expenditure</b>	\$279,408	\$431,583	\$11,305,760	\$8,667,381	\$2,226,046	\$23,462,195
<b>Surplus/ Deficit</b>	-\$145,695					

## Financial Budget – Project Spend Breakdown 2017/2018

Strategic Objective	Description	Direct Project Costs		Allocated Project Costs		Total APL Cost
		Non R&D	R&D	Non R&D	R&D	
1	Growing Consumer Appeal	5,987,417	265,000	923,488	256,381	7,432,286
2	Building Markets	1,241,000	1,066,000	1,636,143	527,322	4,470,465
3	Driving Value Chain Integrity	216,000	775,544	402,222	343,161	1,736,927
4	Leading Sustainability	447,220	4,188,127	481,049	936,006	6,052,402
5	Improving Capability	545,827	1,595,060	184,395	892,820	3,218,102
Other				297,439	254,579	552,018
	<b>Total</b>	<b>8,437,464</b>	<b>7,889,731</b>	<b>3,924,736</b>	<b>3,210,269</b>	<b>23,462,195</b>

Total Non R&D	12,362,195
Total R&D	11,100,000
<b>Total APL Costs</b>	<b>23,462,195</b>

## Definitions of Financial Terminology

**Direct project costs:**

Specific costs attributable solely to one project on an R&D or non R&D basis, often through third party suppliers.

**Allocated project costs:**

Corporate cost identified to resource a project.



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