

Update on Mouse situation 10th May 2011

As a company having provided 15 years resolution of mouse plagues, ACTA provides the following perspective on the current situation around Australia and our efforts to address it. We offer this with the intent to convey some accurate information to the market place at all levels and to provide facts in place of inaccurate press that may be confusing farmers.

The Problem Started:

Mice started to build up late last year with high populations present at the beginning of last summer's breeding season. Exceptional summer rains provided high protein weed seed to stimulate early breeding and sustained population growth. Mild conditions in autumn and the availability of large quantities of grain residue from last season's harvests sustained populations and contributed to the unprecedented, wide-spread mouse problem simultaneously in four States. ACTA circulated advice in October 2010 advising all government agencies that these circumstances could give rise to the "*mother of all mouse plagues*" (my words). However, in January 2011 the news was all about extreme flooding events in many of the expected mouse problem areas, so no one, including us, had experience to judge whether or not the mouse problem would be as bad as first predicted despite a survey of all experts on this. There are no guarantees in the prediction of mouse problems. Highly likely problems can vanish and low-level risk scenarios can rear up unexpectedly.

To counter this variability ACTA maintain strategic stockpiles of bait and chemical to be able to protect large areas of crop at short notice. ACTA maintains a stockpile of bait, the cost of which is partially covered by the bait price at the request of the Grains Industry,. In some years hundreds of tonnes of bait are needed while at other times no bait is sold for several years. It is these strategic stockpiles that have already saved one million hectares of Australia's crops from significant damage.

At the start of this plague we had record stockpiles of chemical (18,000kg) and finished bait (approx. 200 tonnes) as well as 60 tonnes of pre-sterilised grain to enable fast response to the emerging plague with the protection of 600,000 Ha of crops at short notice and up to one million hectares if needed quickly. This has all been delivered as planned and efficiently.

The Problem Continues:

The affected areas have arisen in four states and over vast areas of crop at the same time. We have not experienced this scenario previously and even if several states are affected in any year there is usually a timing difference between events. The worst case scenario has been exceeded in 2011 and

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the present problem may well be the worst in more than half a century. We still do not know the final scale of the risk, but it appears that we are facing a problem about 6 times the scale of the 1999 NSW plague. This was the previous sharpest response requirement we have seen in 15 years.

Our initial stockpiles were supplied promptly in March and April but orders and requirements escalated dramatically after Easter. Bait supplies now depend on on-going production. This production of a professionally prepared, packaged and registered product requires very large movements of grain, grain cleaning, bagging, transport to sterilisation plants in Melbourne, Sydney and Brisbane before movement to our manufacturing plant in Somerton for chemical handling, processing packing and dispatch. Some of these steps are additional to classical pesticide production. Large-scale supplies of packaging and large scale handling of a dangerous chemical on a large scale are involved here. The present mouse plague product demand situation is well beyond Worst Case expectations and have stretched forward planning.

Fortunately, we recognised the risk in February, and took immediate action to commence air freighting chemical at that time. Air freighting is very difficult due to the chemical not being allowed to travel on passenger aircraft. Only a few freight airlines will handle it after special IATA approvals. It can take two months to bring a few tonnes to Australia and only small containers can be shifted by air. We also sought and secured APVMA permission to use all available suppliers after initially having been restricted to using only two suppliers less experienced with air freighting. The first of these air consignments was commenced in March and arrived in early May, on the same day that our own strategic reserves ran out, due to progressively increasing production rates. Additional air freight consignments have been ordered and continue to arrive, in addition to sea freight orders set in motion months ago. Some of the air freighted material is 250% more expensive than our normal sea freight supply. ACTA is absorbing this additional expense in view of the scale of adoption and urgent need to save crops. We are also freighting finished bait FIS in Victoria and free to forward distribution nodes at Toowoomba, Dubbo and Adelaide (even though our normal pricing is ex works Melbourne, as this speeds delivery logistics). We have also obtained from APVMA a permit for 500kg bulka bags in anticipation of the need to refill aircraft quickly and to take pressure of the supply of epoxy lined drums. All cost savings for bulk-bag use have been passed on in full to the market.

I might take this opportunity to record that, MOUSEOFF® Zinc Phosphide bait is now cheaper in real terms (inflation adjusted) than Government sponsored strychnine bait mixed locally on farm with unsterilized local grain and provided without labels or packaging or registration or research support 17 years ago (when it was then \$3/kg). Recent rural press quoting that "*bait prices have soared*" in this plague are unfounded and inflammatory and suggestions that a finished bait of this quality could be made for \$2 are sheer nonsense. ACTA have absorbed all of the additional costs of emergency production and not changed our bait price in 3 years. We have even reduced bait prices by introducing the bulka bag pack. The retail cost of around \$10/Ha (including merchant margin and local freight) for protection of crops worth over \$500/Ha is an easy decision of Cost-Benefit Analysis. The Break-Even point for investing in mouse baiting is 2% crop damage. Mice can remove more than 5% of a crop overnight.

So let's now focus on the issues that really matter

Supply logistics:

We have already been able to protect nearly 1 million hectares. Recent orders for bait in addition to existing supplies have exceeded our best rate of immediate supply on every day since Easter. We currently hold orders of nearly 1000 tonnes of bait and have a maximum plant production capacity of around 60 tonnes per day. This production requires all supply chain logistics to keep up with us (especially chemicals, packaging and sterilisation of grain and all associated freight). Recently, we have not been able to exceed about 50 tonnes per day due to limitations in the supply of sterilised grain to us. Even so this would treat a normal mouse plague event every few days! This is despite the very best efforts of all three gamma sterilisation plants to keep up supply. Priority is being given to this campaign by all of our suppliers and no-one is underestimating the importance of the battle here. We have received great support from all suppliers to help us deal with the emergency. We could not ask for more in this regard.

The present plague has the potential to affect Australia's GDP, to contribute to food price inflation and to ruin individual farmers and entire rural communities. We reacted well ahead of all farmer organisations and started to expand the supply chain to cope as quickly as possible with a looming emergency. During this period we have lifted output capability 500% (from a routine 12.5 tonnes per day) and we will run 24 hrs per day to achieve maximum outputs, so long as we can obtain the chemicals and grain in time.

Right now we have a 2 to 3 week delay between orders being placed and being dispatched. This is because the backlog is increasing every time demand exceeds daily supply. We understand that all merchants have asked farmers to anticipate forward problems and to order early to be "in the supply queue". ACTA believes that there is an element of stockpiling in the present backlog – but we have no way of telling how much. We have strictly supplied in order of receipt of order. The ordering of mouse bait by the rural merchant distribution chains has been most orderly and responsible. I would like to record our thanks for this sensible approach that is seriously needed at this time.

The game plan from here as we see it:

ACTA can produce to a maximum of 300 tonnes per week. This requires enormous work effort from everyone in our team of 27 staff now devoted to production and logistics. Much of our air freighted chemical comes in tiny 500g tins that must be handled under safety controlled conditions. We must process several thousand per day to maintain supply at the maximum pace. Much of the grain is sterilised in 25kg bags requiring handling at every step. Some 30 supply companies are feeding goods to us for processing and all are running to our priority demand right now. No-one has let down ACTA nor farmers, but this is neither cheap nor easy.

ACTA understands and feels for the stress that builds up amongst the farming community in these situations. We also take personally, the enormous responsibility ACTA has to do all we can to solve the mouse problem. Our options are nevertheless limited by various control on Ag chemicals.

Efforts by ACTA during 2010 on the SA Eyre Penninsular, working in concert with the SA Government and APVMA we offered farmers a lower cost production process for Mouseoff Zinc Phosphide Rodent Bait (called an Econobait). But when offered, the farmers said there was too much risk to adopt this Econobait option, despite the lower cost.

What can we all do while we maximise bait supply to crops most in need?

We understand that much of the current demand is to minimise damage to wheat at sowing and canola at emergence and we hope that as much of this is being treated with bait supplied already or on its way. We also hope that the demand is in part the merchant system getting appropriately ready for likely damage to wheat at tillering, canola at podding and crops such as peas and lupins at flowering. This forward planning is necessary. The later plantings are not yet damaged and the later stages of crop damage will not be seen until July and August, so we do have a small window to get logistics in place to deal with this. This is the focus now and we ask that all merchants assist us in focussing bait where and when it is needed most. Some crop damage is unavoidable in the short term but the vast majority will be saved by an orderly and systematic approach.

On our part, we will deliver as much bait as humanly possible over coming weeks. Our chemical supply chain already in place will enable a further 1.5 million hectares of protection and we are continuing to import as required to go above this as needed. We can extend this in time but only at the rate of 300,000 hectares per week. It is imperative that there is orderly distribution of this bait to farmers in most need. This will require good communication between agronomists and farmers at the local level. We cannot do more than follow the bait order trail as this is the only market feedback we have. We are supplying to all states simultaneously and trying to maximise logistic efficiency. Merchants could better use their warehouses, rather than leave it up to individual stores to solve the local redistribution issues as best they can. We do not have the capability or information to focus on individual farmer needs.

If we sustain an output near 300 tonnes per week it should be possible to treat all problems. We will not pause in our efforts. The mouse activity and crop damage lull (partial) during the vegetative phase in coming weeks will allow ACTA to extend the crop protection cover through building bait reserves.

Clearly, in a time of crisis, the level heads must prevail. We seek everyone's cooperation as we do our level best to save every crop we can. As we are already extended to several million dollars of supplies it will also assist if merchant invoices are paid on time so our own supply chain is supported fully.

We understand that heavy rains or other factors such as starvation can cause rapid changes in mouse populations. Plagues can end as abruptly as they arise and we have direct experience of this. Currently, we do not believe this one will disappear for several weeks or even months, so the system must hold some stocks throughout. However we did get some indications today that some areas are seeing mice cannibalised which is a sure sign of localised population collapse.

ACTA cannot accept bait back that has been ordered, but we can absorb the overrun of production once ordering ceases. This becomes the stockpile for next time and we have learned to be the "shock absorber" in this system in this regard and this is part of the bait pricing.

Please help us to assure all landowners that all is being done as quickly as possible. I can assure everyone that the team at ACTA is doing everything possible to achieve perhaps the best crop protection ever seen. This is an extraordinary battle on a scale that no-one fully expected.

Continued support of the rural merchant system and production of currently registered products will minimise overall economic damage and farm livelihood with maximum safety to all involved.

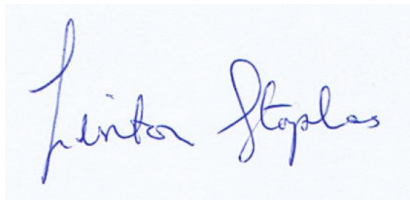
Additional information is on our web site (www.animalcontrol.com.au). We have plenty of technical DVD's and MOUSEOFF booklets and monitoring cards available free to those who need them.

Thanks for your support, good sense and patience. We do understand the need for forward planning and supply advice and will do our best to address this for you also. Please pass this information directly and quickly to all of your agronomists, merchants, senior grains industry people and individual farmers as you see appropriate. We need hard facts in farmers hands please and we advise caution on some sub-standard reporting on this matter recently. Those who seek to make a political grandstand on this crisis are ill-advised.

Our team is focussed on output. Keeping follow-up order calls to a minimum will help ACTA staff maximise our production output and dispatch efficiency. It really has caused admin overload to repeatedly follow up orders that are in various stages of processing.

At the top end of the system we would appreciate some feedback as to the final scale of this problem. We are in constant reactionary mode so it may help to know ahead what the true scale of this event really is. In the end I suggest that the system now finally helps out for future events such as this by holding some stocks of MOUSEOFF® in warehouses at all times so that the total logistics is not left on ACTA at the last minute.

For the final point, it is worth recording that over the last 20 years we have defended and professionalised 1080 for FOXOFF® and DOGGONE® and PIGOUT®, written the registration of calicivirus in Australia and the proponent case in NZ, developed DenCOFume®, and produced ready to use RABBAIT® for rabbit control, MOUSEOFF® for mouse control and RATTOFF® for cane rat control via the merchant system, provided concentrates for government agencies and, most recently, introduced the world's most effective rainfast slug and snail control product Delicia SLUGGOFF® Lentils to the market. All up, these products (not counting our role in RCV) are estimated to have earned rural Australia some \$2 billion dollars of net benefits and we know we have directly saved many farms from collapse. ACTA is proud of its contribution to Australian agriculture and remains the leading research based supplier into the niche vertebrate pest management market sector.



Prof Linton Staples

Managing Director