



WEST AUSTRALIAN PORK
PRODUCERS' ASSOCIATION

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Mr G Banks
Presiding Commissioner
Pigmeat Safeguards Inquiry
Productivity Commission
LB2 Collins Street East
Melbourne VIC 8003

7 December 2007

Email: pigmeatsafeguards@pc.gov.au

Dear Mr. Banks

Submission: Safeguards Inquiry into the Import of Pigmeat

On behalf of the Association I have pleasure in presenting our submission to this inquiry.

We also thank you for visiting WA and meeting with a broad cross section of the industry's stakeholders to hear their comments on the current status of the Pork Industry in this State.

The Pork Industry makes a significant contribution to the economy of WA. The contents of this submission paint a balanced picture of the trading environment confronting producers who in the main continue to work towards improving the efficiency of their production units.

You will note that we recommend the scope of this inquiry be broadened to examine subsidies, both direct and indirect, that support the production of pork in the three major importing countries. It is of the view of this organisation that the Terms of Reference for this particular inquiry will not be fulfilled unless the issue of these subsidies is untangled and reported to the industry, with the appropriate adjustments and support.

We do trust the contents of our submission will be carefully considered and helpful towards the inquiry advocating positive outcomes for the industry.

We also advise that the Association will be presenting a separate submission on the industry structure and feed costs.

Yours faithfully

Russell Cox
Executive Officer

West Australian Pork Producers' Association

Submission to

Productivity Commission Safeguards Inquiry

into the

Import of Pigmeat



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KEY RECOMMENDATIONS

WAPPA proposes that the:

- Productivity Commission recommends to the Australian Government that the scope of this inquiry be broadened to examine the annual level of subsidies, both direct and indirect, that support the production of pork in the three major importing countries, namely Denmark, Canada and the USA. The purpose of this inquiry would be to impose the same level of support/tariff protection to the Australian Pork Industry, which may include countervailing duties.
- Productivity Commission recommends to the Australian Government that all pork imported into Australia is produced under an internationally recognised on-farm Quality Assurance program which complies with Australia's Food Safety Standards.

These measures would assist in producing an equitable balance in international competitiveness and trade that will maintain imports for the processing sector at a sustainable level but create an environment in which the Australian pork industry would have the confidence to invest in new infrastructure and technology to improve economic efficiency and growth.

For the Australian pork industry to become globally competitive it must continue to pursue the goal of producing a superior product with improved genetics, quality feed and supply chain efficiencies, and one that takes advantage of the high health status of the Australian herd. This will enable the industry to gain a competitive advantage in the local and international protein market, particularly as a supplier of fresh chilled carcasses and cuts to the Asian market. Such a position will only be achieved if the industry has the capacity to compete in a global market on the same terms as our trading partners.

1. Introduction

The West Australian Pork Producers' Association (WAPPA) represents the interests of WA pork producers and associated stakeholders. Within its available resources, WAPPA aims to deliver the best possible leadership, policy, advocacy and service to maintain and grow the WA pork industry.

WAPPA's VISION

To promote a vibrant, innovative, sustainable and competitive domestic and export WA pork industry, while safeguarding the interests of WA pork producers by maintaining services and developing policies through liaison with all three levels of Government, Australian Pork Limited (APL) and industry organizations which can encourage incentive, opportunity and promotion for the pork industry.

The Vision encompasses an industry that:

- Is locally and internationally competitive, cohesive and profitable at all stages in the production and processing chain.
- Embraces new ideas and technology from a broad range of sources creating an industry environment to invest in its future.
- Adopts industry best practices in quality assurance, environmental management and animal welfare.
- Is information-driven and communicates efficiently and effectively with producers and others in the supply chain enabling it to satisfy industry requirements.
- Has a local and international outlook that enables producers to compete effectively to utilize all available knowledge in production and processing and all available markets for pork and processed products.

2 Overview of the WA pork industry

Western Australia has the natural resources and geographic location to be a long term supplier of quality fresh pork to the Australian and Asian markets. The WA industry has grown the export market for pork in the last three financial years from 65 tonnes (CWE) in 1997 to an average of 12,000 tonnes, and currently approximately 25% of annual production from WA is exported. Maintaining and growing this export market for fresh chilled product is crucial to the future of the industry in WA.

Western Australia is also a reliable supplier of grains for the animal feed industry. Total grain production in WA averages in excess of 8 million tonnes per year, and with the grain growing regions covering a wide range of climatic zones the risk of crop failure due to drought is relatively low. Grain prices in WA are on average lower than those in the Eastern States where lack of supply due to drought is a major concern. The availability of a reliable supply of grain has in some respects protected the industry from the same economic pressures faced by producers in the eastern states, although recent increases in grain prices on the world market has had a direct impact on the profitability of producers in WA.

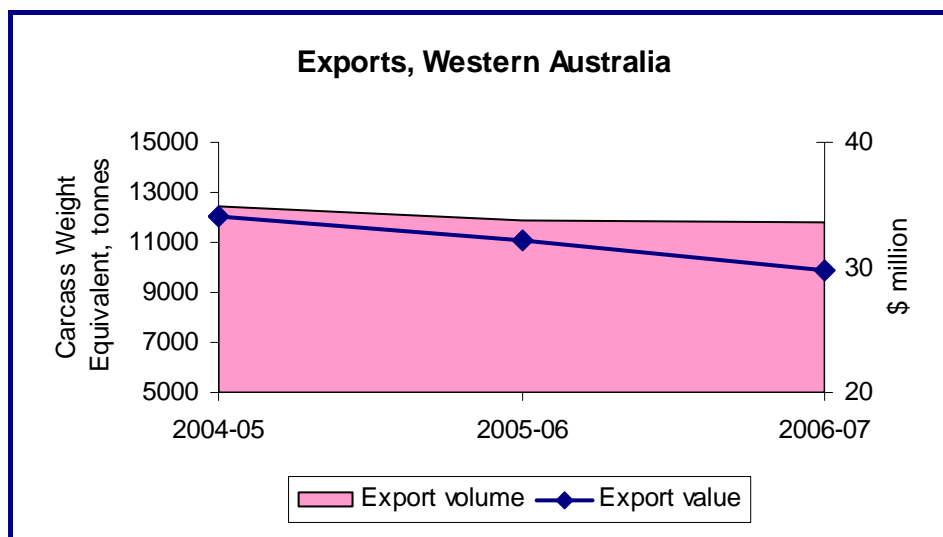


Figure 1: Export of pork products from WA (Source APL/ABS)

The temperate climate in the southern part of WA is ideally suited to pig production, and with adequate supplies of water in these areas either from natural aquifers or state managed distribution systems there are good opportunities to grow the industry. The industry is also well supported by world class research and development staff and facilities at various Universities and Government facilities.

The pork industry contributes \$105 million annually in gross value (farm gate) to the WA economy, while continuing to provide direct and indirect employment for an estimated 2,500 people from production to retail. Sales of pork products at retail are estimated to be worth \$525 million with wages estimated at \$120 million annually.

There has been significant industry investment in the industry during the last ten years. As recommended by the WA Pig Industry Taskforce in 1986, there has been consolidation of abattoirs. One export accredited abattoir (PPC/Linley Valley Abattoir – a division of the Craig Moyston group) now slaughters in excess of 95% of the pigs produced in WA to world-best standards. At the same time there has been significant research and development conducted to improve housing design and construction, and this has led to improvements in productivity. (see Appendix (1) PPC / Linley Valley Abattoir).

Significant progress has also been made on the uptake of quality assurance programs, including the adoption of practices aimed at improving animal welfare. This coupled with a sophisticated emergency animal disease tracking program and product traceability makes the WA industry perhaps the most progressive in Australia.

In addition to the processing capacity of the PPC/Linley Valley abattoir, other companies that are also accredited pork processors and exporters include George Weston Foods, Del Basso Small Goods and D'orsogna are also accredited pigmeat processors and exporters. Other processors include Hunsa Smallgoods, Princi Smallgoods, Mondo Doro and Re & Son.

2.1 Change in the sow herd since 1992

The composition of the sow herd and the number of producers in WA has changed significantly in the last fifteen years (Figure 2). In 1992 there was an estimated 38,900 sows with 789 producers. In June 2001 the sow herd had declined to 35,700 and remained relatively stable until early 2004, while the number of producers declined from 360 to approximately 240. There are still a number of small producers with less than 10 sows, but their contribution to overall production is negligible and they are difficult to monitor.

Since 2004 there has been a gradual decline in the sow herd reaching an estimated 30,000 by June 2007 with an estimated 160 producers. A survey of producers conducted by WAPPA in November 2007

confirmed that based on current market conditions the sow herd will contract a further 10% by June 30, 2008.

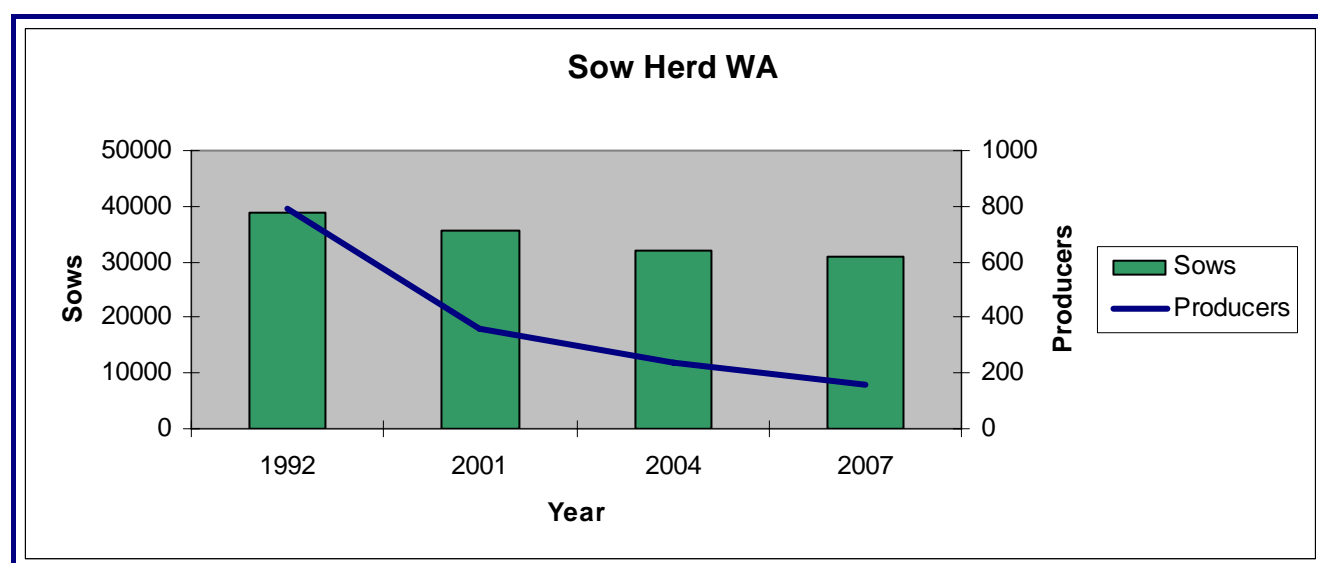


Figure 2. Change in the number of producers and sows in WA (Source WAPPA)

2.2 Production in WA

The number of pigs slaughtered in 2003/04 was 674,419, up 24% on the 542,585 head in 2000/01. The volume increase in tonnage was similarly up by 23% from 36,782 tonnes of carcass to 45,190 tonnes.

Since June 2004 the decline in slaughter numbers are down 106,357 since 03/04 with the decline in production since the same period being down 6,289 tonnes.

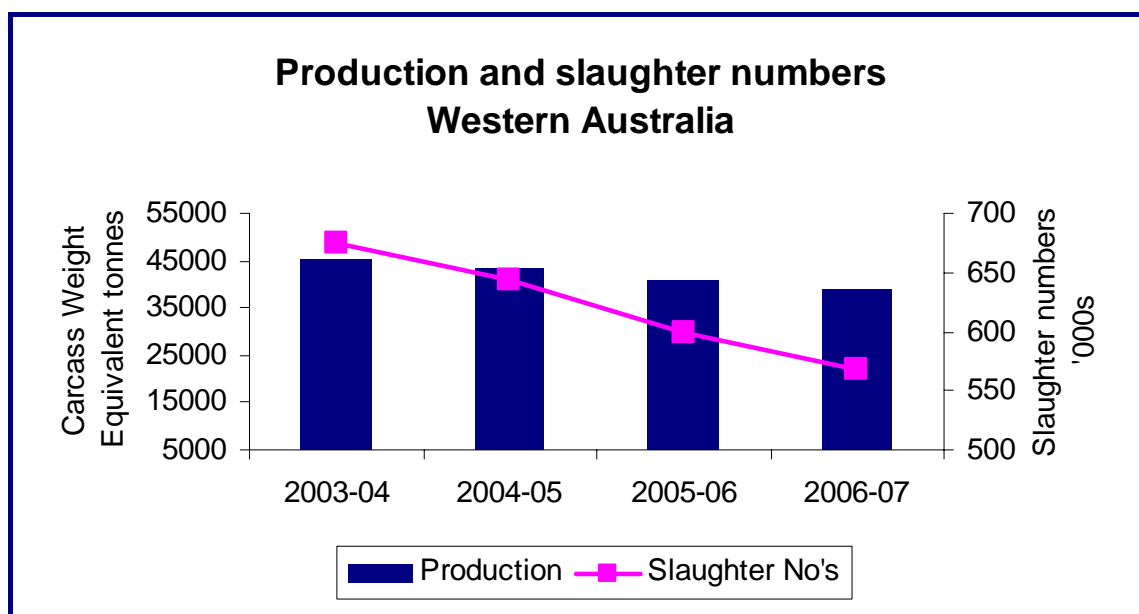


Figure 3. Production and slaughter numbers (Source APL/ABS)

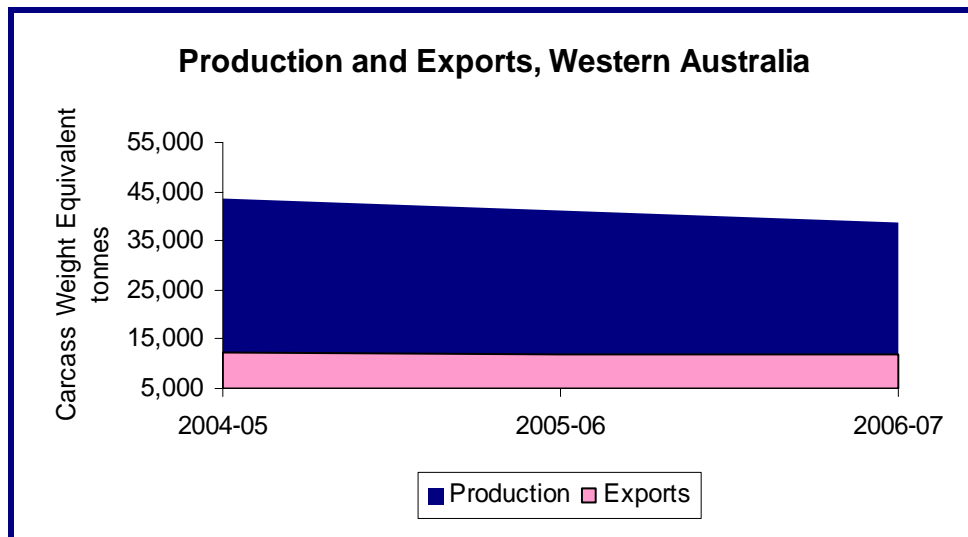


Figure 4. Total production of pork in WA and the proportion that is exported (Source APL/ABS)

Slaughter numbers through the PPC/Linley Valley abattoir on a weekly basis have declined from 12,900 in 2003/2004 to 10,900 in 2006/2007. The current weekly slaughterings are 9,500 forcing the company to reduce its operations to a four day week.

Despite trend increases in per capita consumption of pork products and population growth, an industry analysis conducted in 2004 projected a fall in production of 3% over the next three years.

Projected import volumes would result in increased import market share. The import share of the domestic processed market would increase from 39% to 55%, an increase of 57% in volume terms. Imports were assumed to increase at 20,000 tonnes/pa.

The 3% projected decline in production was considered conservative as it did not take into account producers leaving the industry due to low levels of profitability caused by the farm gate price squeeze by the competition from imported product.

2.3 WA production case studies

To support this submission to the Productivity Commission, WAPPA has conducted an analysis of three commercial pig units in WA. These were chosen to reflect a range of production systems and levels of efficiency.

2.3.1 Case Study One

This piggery has an outdoor farrowing unit with the pigs grown out in straw based eco shelters and conventional finishing sheds and is company owned. The increase in the cost of production from October to December takes into account the sharp increase in grain prices created by the demand for feed grain on a national and global basis. The monthly trading losses in this study are actual to the 31st November 2007 with the December forecast based on the further increase in the cost of production due to grain costs. Trading loss per pig is \$19.25.

The management of this production unit have signalled to their processor that they will not be able to sustain trading losses at this level. Therefore they are considering a reduction in production or possibly exiting the industry should this situation not improve in the early part of 2008. The flow on effects from a decision by this production unit to exit would impact on the efficiency of the PPC/Linley Valley abattoir and the maintenance of the export trade that WA has with Singapore.

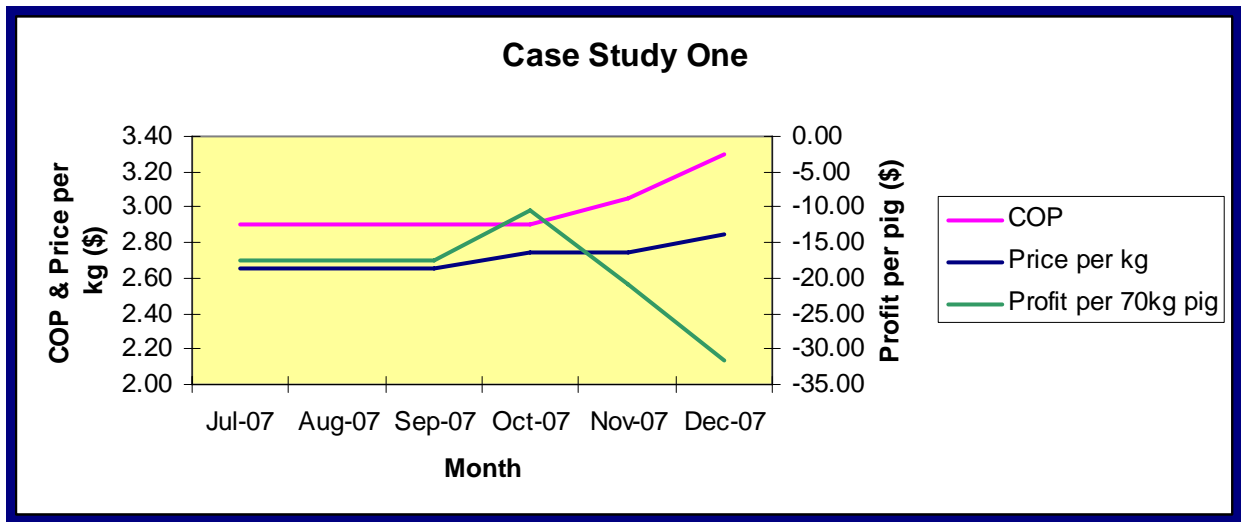


Figure 5. Cost of production, price received and profitability for Case study 1

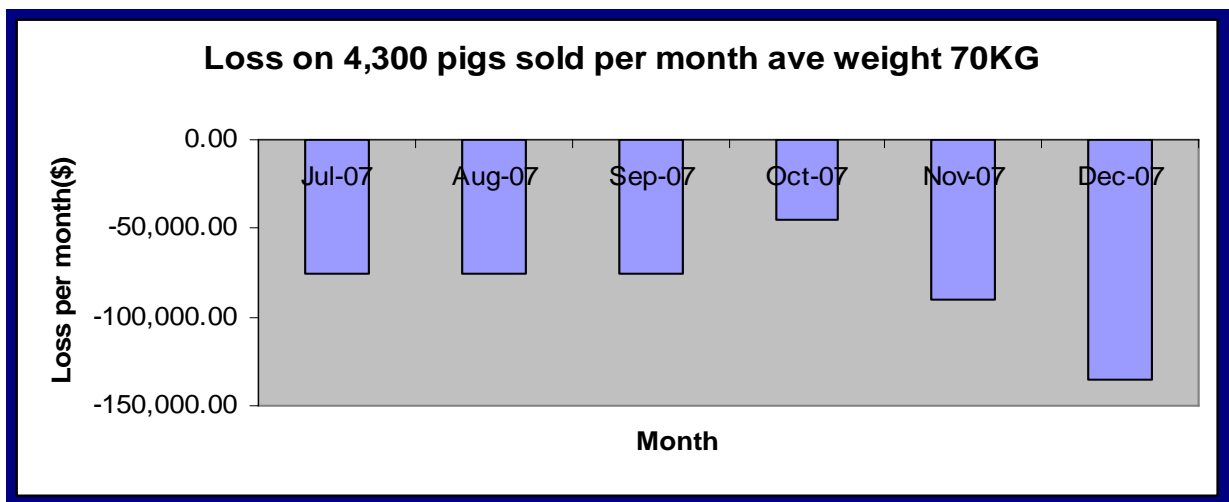


Figure 6. Financial loss per month for Case study 1

2.3.2 Case Study Two

This piggery is a 250 sow farrow-to-finish operation with the pigs grown out in straw based eco shelters owned as a part of a mixed farming business. This production unit sells the majority of its pigs as bacon but also sells a proportion as pork. The monthly trading losses in this study are actual to the 31st November, with the December 2007 forecast based on the further increase in the cost of production due to grain costs. The current loss per pig for this farm is \$13.41.

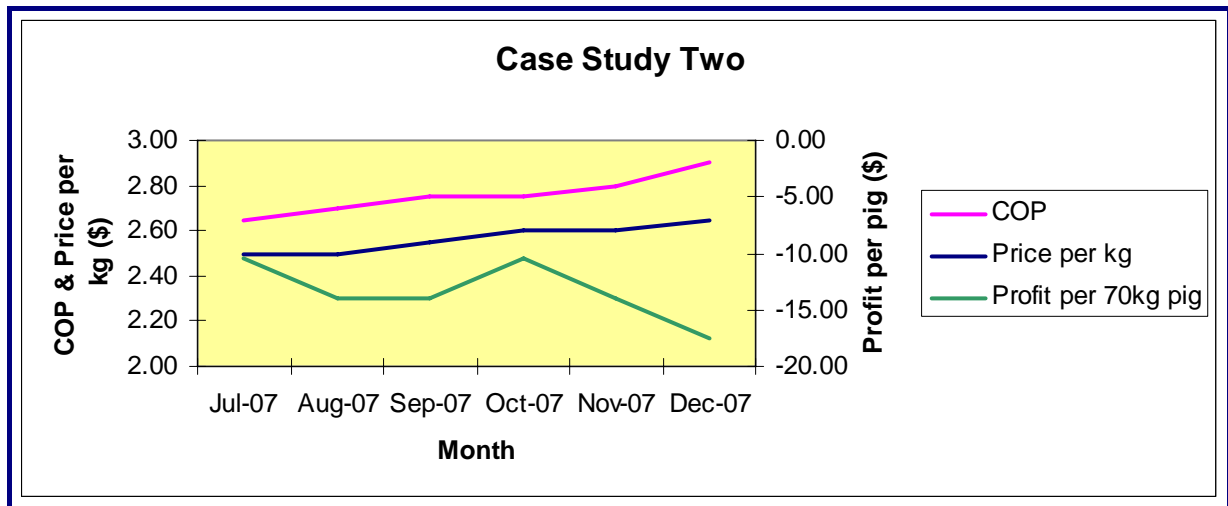


Figure 7. Cost of production, price received and profitability for Case study 2

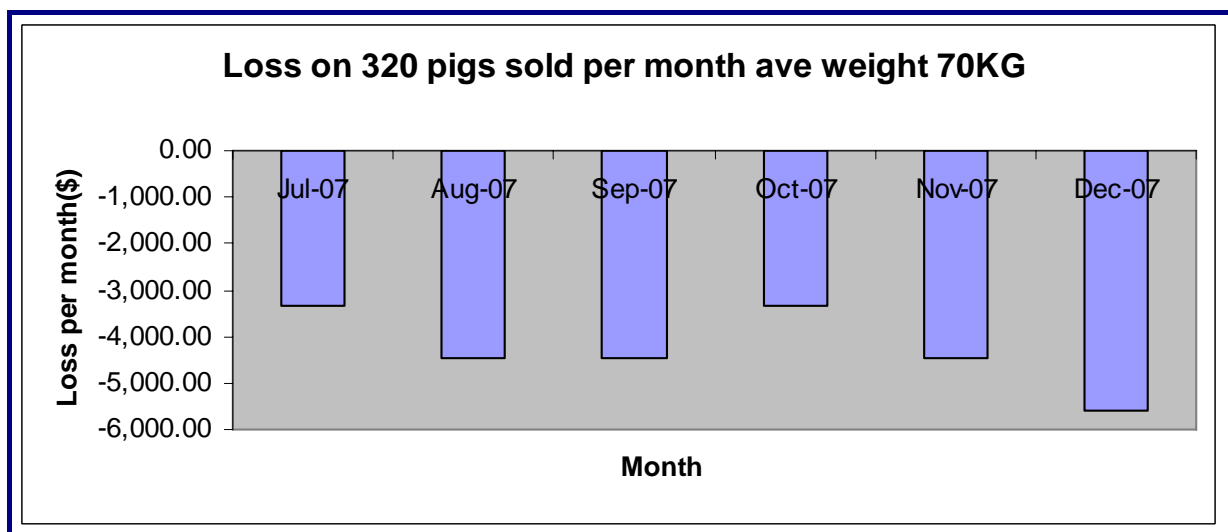


Figure 8. Financial loss per month for Case study 2

2.3.3 Case Study Three

This is a diversified piggery with both indoor and outdoor farrowing units with the pigs grown out in straw based eco shelters or conventional finishing sheds. This piggery is part of a multi faceted Agribusiness.. The monthly trading losses in this study are actual to the 31st November, with the December 2007 forecast based on the further increase in the cost of production due to grain costs. The current loss per pig for this farm is \$10.76.

At the time of preparing this submission the grain harvest in WA was about 50% complete. At this stage the harvest has produced more grain than originally predicted which has seen a slight easing in feed prices. This easing in the price is expected to bottom out and trend up again.

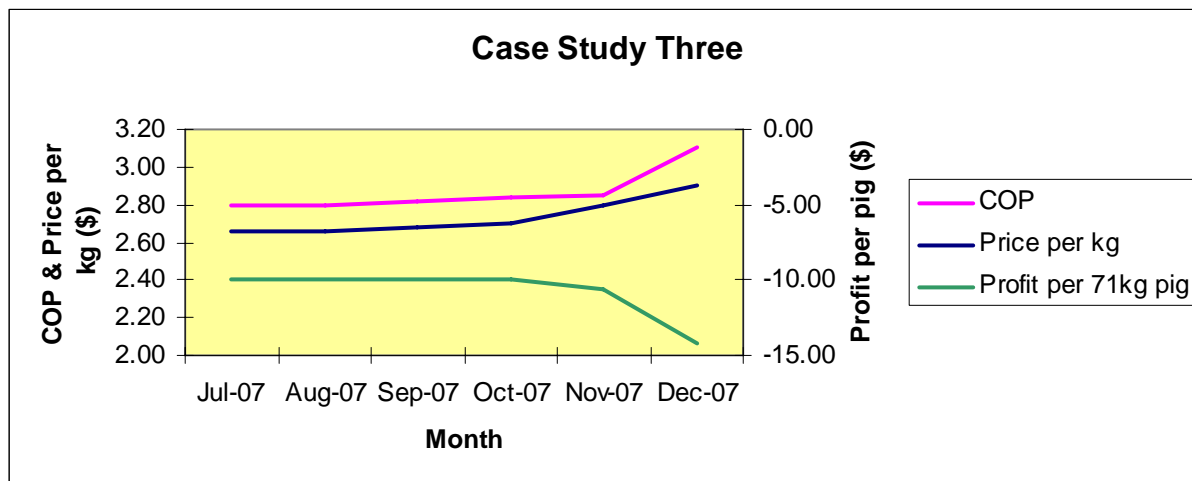


Figure 9. Cost of production, price received and profitability for Case study 3

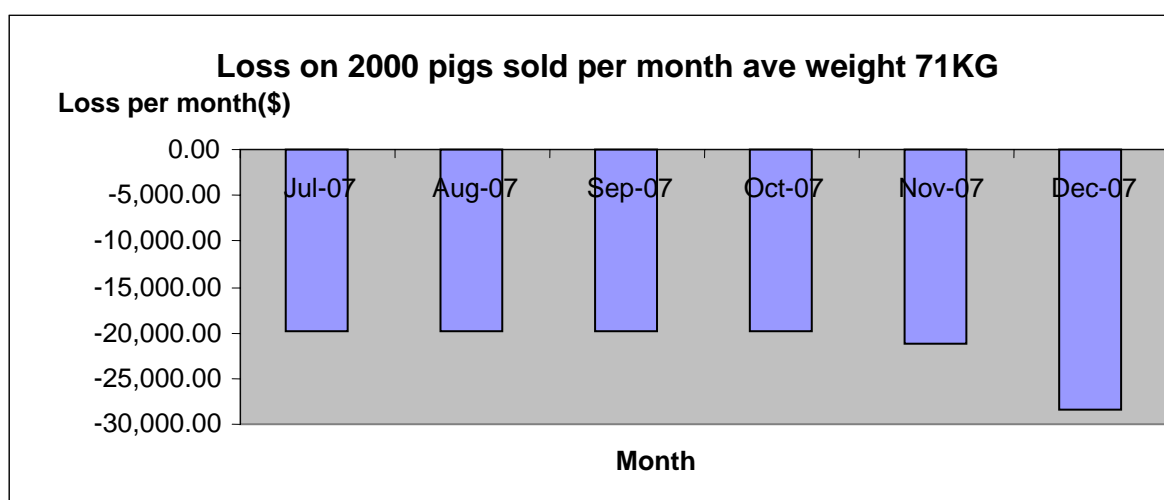


Figure 10. Financial loss per month for Case study 3

2.3.4 Case Study summary

Some industry observers and economists may say that the current losses being observed by all producers in WA, as represented by the above three case studies, is the natural forces of the market at play. The difficulty is to accept that the current situation is to a large extent due to liberalisation of the market and the impact this has had on the production of pork some twelve years after the Australian Government accepted a bound tariff rate of zero imports of pigmeat under the WTO Agreement on Agriculture effective from 1st January 1995.

Further impacting the producer plight would have been the decision in the period 2000 to 2002 to increase production to meet the expected demand for proposed new and improved export markets only to find out that these markets were not available at the level predicted. This combined with a spike in grain prices due to the drought, and an appreciating exchange rate in late 2003 favouring imports, has been the reason for a number of producers exiting the industry in early 2004. Effectively the industry has a repeat of the late 2003/04 position only on a larger scale.

2.4 Imports

Imports have increased in absolute terms from the time of the 1998 safeguards enquiry to the current time with the product sourced primarily from Denmark, Canada and the USA. Imports from the end of 1998 to the middle of 2000 rose from around 10,000 MT to 40,000 MT. The next growth is from 2002/03 and has continued with imports rising from 73,000 tonnes (CWE) to 168,000 tonnes CWE in 2006/2007.

The relative rise in the share of imports is marked in the most recent years, 2005/06 to 2006/07, particularly from the USA where the share of imports has effectively increased from zero in June 2004 to 106,788 CWE tonnes in total or 23% of all imports.

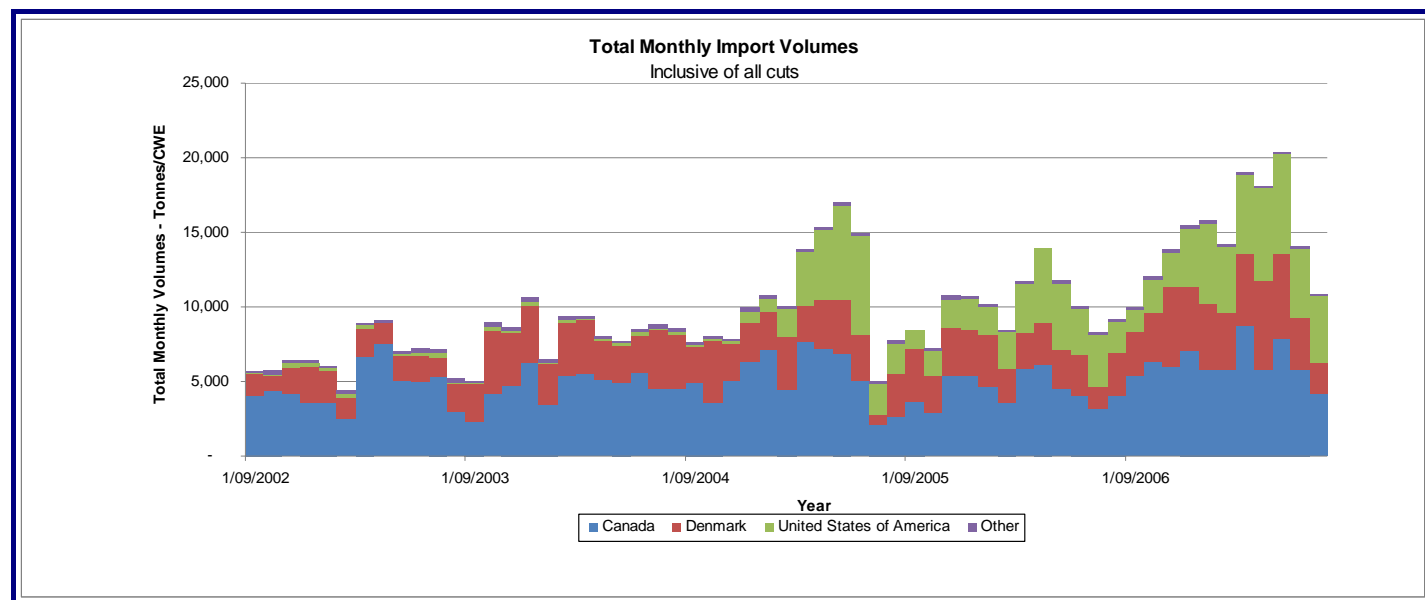


Figure 11. Pork imports per month by volume to Australia by country (Source APL)

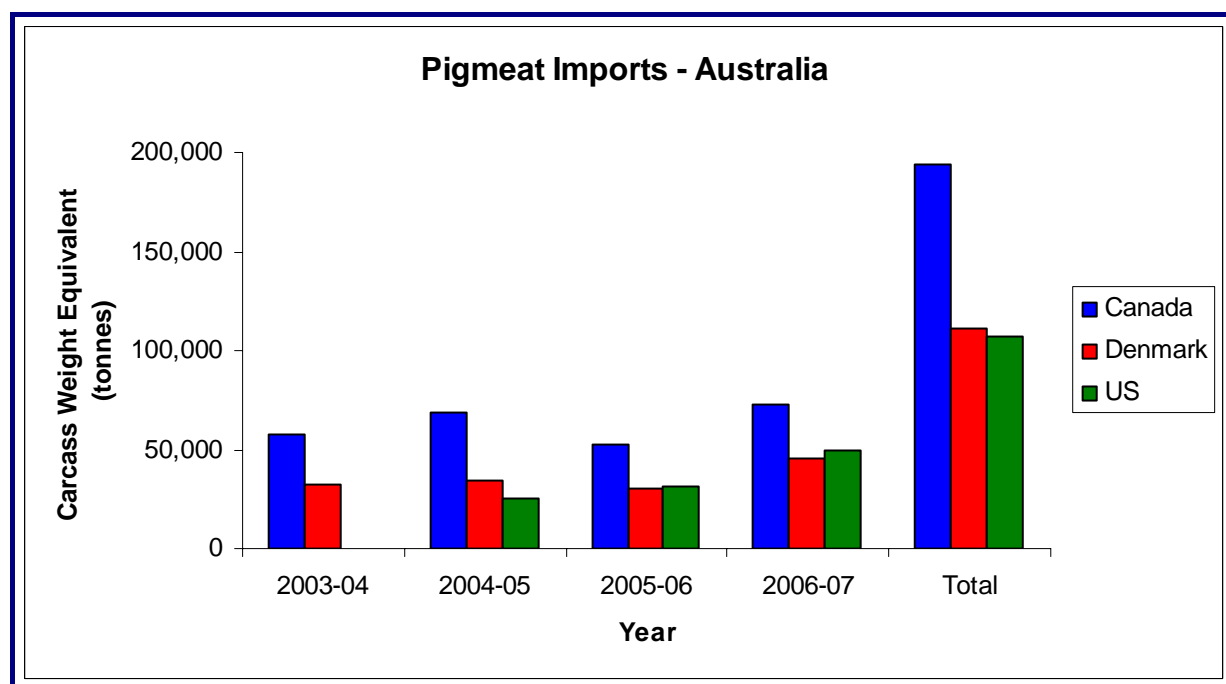


Figure 12. Pork imports per annum by volume to Australia by country (Source APL)

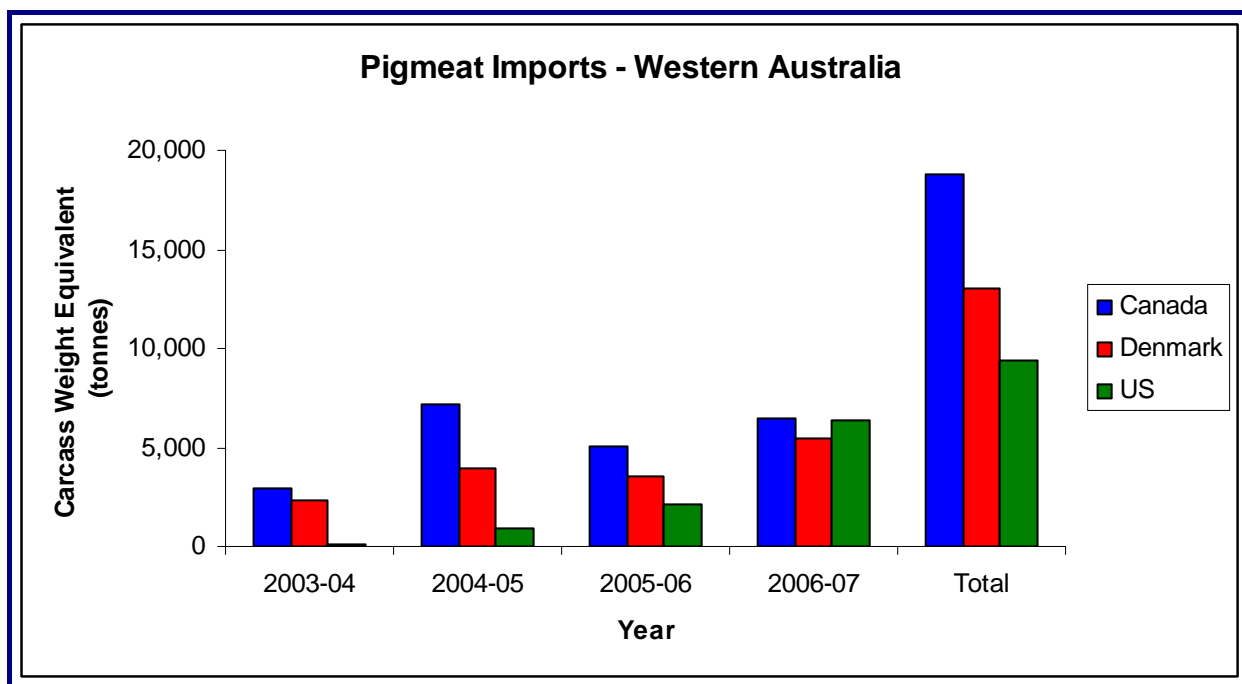


Figure 13. Pork imports per annum by volume to WA by country (Source APL)

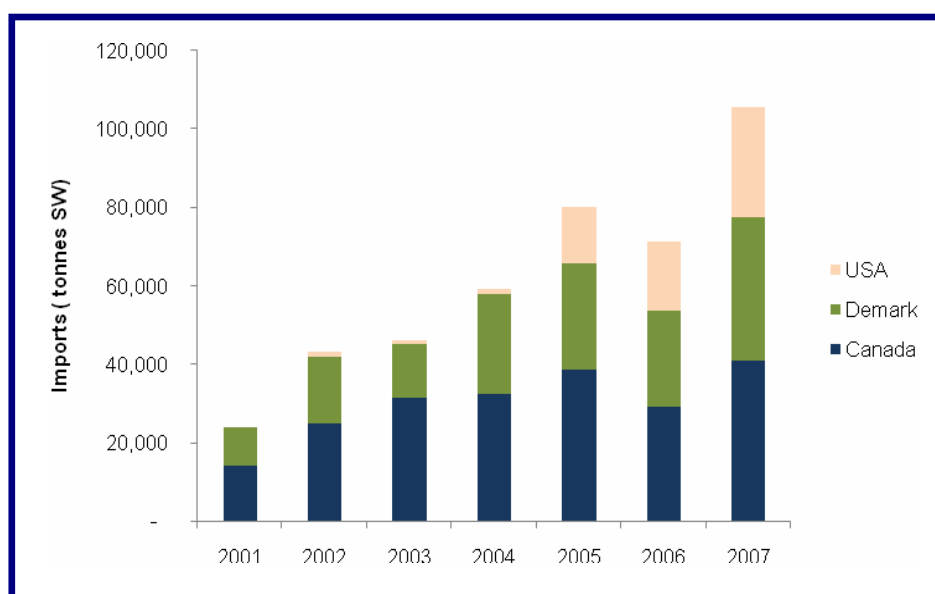


Figure 14. Total pork imports per annum by volume to Australia by country (Source APL)

The share of imports as a proportion of domestic consumption has risen from 18% in 2002/03 to 34% in 2006/07 with an increase of fourteen percentage point 2006/07.

Table 1. Import penetration of the Australian pork market by imported product (Source APL)

Year	Imports (A)	Domestic production (B)	Exports (C)	Apparent consumption (A+B-C)	Imports % production	Imports % apparent consumption
2002-03	73	418	83	408	17	18
2003-04	90	405	69	426	22	21
2004-05	128	388	61	455	33	28
2005-06	112	388	63	437	29	26
2006-07	165	381	60	486	43	34

The penetration of the West Australian pork market by imports effectively mirrors the Australian position where the level of imports from Denmark and Canada has remained reasonably stable while product from USA has increased from zero on June 2004 to (6,321 CWE) June 2007. Imports from the USA account for 22% of all imports to WA since 2004 compared to 25% for Australia for the same period.

Table 2. Import penetration of the Australian pork market by imported product (Source APL and WAPPA)

Import penetration of WA Market (000 tonnes CWE)

Year	Imports (A)	Domestic production (B)	Exports (C)	Apparent consumption (A+B-C)	Imports % production	Imports % apparent consumption
2004-05	12	43.5	12.5	44	27.5	27
2005-06	10.5	41	12	39.75	26	26
2006-07	18	39	11.75	45.25	46	34

A key factor in the substantial increase in product from the USA evolved out of the decision by Biosecurity Australia to allow the importation of cooked and uncooked pigmeat from PMWS (Post Weaning Multi Wasting Syndrome) affected countries. In May 2004 the Director of Animal and Plant Quarantine made a determination setting out new quarantine requirements for the importation of pig meat, allowing imports from the USA. Effectively from this time, coupled with the free trade agreement between Australia and the USA, imports started to grow from that country increasing from 25,630 (CWE) in 04/05 (18% of all imports) escalating to 49,796 (CWE) or 25% of all imports in 2006/07.

2.5 Subsidy support by the USA and European Union

Stiglitz and Charlton (2005) (Stiglitz, J.E. and Charlton, A. 2005, Fair Trade for All: How Trade Can Promote Development, Oxford University Press, Oxford. Pages 57, 58 and 59) clearly demonstrate that unless the USA and EU go down the path of trade liberalisation by reducing subsidies, the welfare and efficiency of producers in developed and developing countries will continue to be marginalised.

The purpose of including these extracts in this submission is to highlight the lip service the USA and the EU are paying to trade liberalization to the detriment of developing countries and key trading partners. Producers in Australia should not be penalised on the farmgate price they receive due the price squeeze created by subsidised imported product particularly from the USA and Denmark.

The US trade representative Robert Zoellick's statements after the Doha Ministerial Conference reflected the prevailing positive mood and the hope for a successful round of negotiations:

"Doha lays the groundwork for a trade liberalization agenda that will be a starting point for greater development, growth, opportunity and openness around the world...we've settled on a program that lays out ambitious objectives for future negotiations on the liberalization of the agriculture market. These objectives represent a cornerstone of our market access priorities for trade and they will create a framework that will help the United States and others to advance a fundamental agricultural reform

agenda. On a range of issues, such as agricultural liberalization and reduction of tariffs on non-agricultural goods, we've shown how our interests can converge with the developing world. I believe that we in the United States have an enhanced appreciation for the interests of developing nations in trade".

Despite the expressions of goodwill at Doha, progress on the Development Round has been slow. Part of the problem is that, while the interests of different developing countries differ, the evolving agenda itself was not really designed to reflect the real concerns of developing countries. Throughout 2002 and 2003 it became apparent that many developing countries felt that the Doha Round was moving in the wrong direction on many key issues. They felt that the new round offered them few immediate benefits but carried the risk of additional obligations. As a consequence developing countries walked away from the Cancun Ministerial Meeting in September 2003.

Up to that point, Doha had achieved little progress on most of the critical development issues. One of the key disappointments has been agricultural reform, which many developing countries and NGOs viewed as the primary objective of the round. The March 2003 deadline for agreement on agricultural modalities was missed.

At the same time, agricultural initiatives within OECD countries seemed to be undermining multilateral efforts. The US Farm Bill in 2002 increased the level of support to US farmers and strengthened the link between subsidies and production decisions. It provides counter-cyclical payments (CPPs) to US farmers which respond negatively to world prices. This type of measure has allowed the US to dump its farm surplus on world markets. For example, the US exports corn at prices 20% below the cost of production, and wheat at 46% below cost.

The US Farm Security and Rural Investment Act (FSRIA) of May 2002 has a value of about US\$190bn over the next 10 years, about US\$83bn more than under previous programs. It sets target prices which are lower than the pre-1996 levels, but the total effective support is larger because average world commodity prices have declined and the range of commodities included in FSRIA is larger than in the 1996 FAIR Act. The act was intended to phase out farm subsidies, but even before the passage of FSRIA, farmers had achieved additional support through emergency measures (Stiglitz & Charlton 2005).

One year later, the EU's 2003 Luxembourg reform of the common agricultural policy (CAP) was also disappointing. The EU reform shifts support from production-limiting subsidies (the so-called Blue Box subsidies) to other, more acceptable forms of farm support (i.e. the Green Box subsidies, which are deemed to be less trade-distorting). However, the level of producer support will remain virtually constant - projected to fall only from 57 per cent to 56 per cent (OECD 2004). Moreover the reform has little impact on export subsidies or import barriers.

Both of these initiatives fell far short of expectations and signalled the limited commitment of the US and EU to agricultural reform. Consequently both plans had a depressing effect on the mood of multilateral agricultural negotiations (Stiglitz & Charlton 2005).

Total OECD spending on agricultural subsidies is more than US\$300bn per year. This is almost six times the total aid from OECD countries to all developing countries (US\$50-60bn per year). Yet agriculture is crucial to developing countries. It represents almost 40 per cent of their GDP, 35 per cent of exports, and 70 per cent of employment (Stiglitz & Charlton 2005).

Agricultural liberalization presents developing countries with the benefits of increased market access, but also the (potential) costs of higher prices for domestic consumers. The fundamental point is that consumers benefit from lower prices that result from large agricultural subsidies, and producers lose.

The producers are typically poor farmers, often far worse off than the urban net consumers. The net effect of wide-ranging agricultural reform varies across developing countries depending on the composition of their exports and imports of different commodities, and the price sensitivity of those commodities to liberalization (Stiglitz & Charlton 2005).

The potential for losses highlights the need for a more fine-grained approach which would differentiate among crops and countries, and emphasizes the importance of adjustment assistance, which would need to vary among developing countries, depending on the magnitude of the adverse impact.

In addition, countries which are importers of subsidized commodities as well as producers should be allowed to impose countervailing duties. Such duties would simultaneously enable producers to receive prices that would correspond more closely to what they would have received in the absence of the distortionary subsidies in the advanced industrial countries and provide the revenues with which these countries could protect consumers from the adverse consequences of the price increase.

Moreover, since those in the advanced industrial countries would receive less benefit from their distortionary subsidies, such a reform might reduce political pressures for the subsidies (Stiglitz & Charlton 2005).

The WTO should focus on liberalizing those commodities which have the largest positive affect on producers and the smallest adverse consumption effects. (Stiglitz & Charlton 2005).

World Trade Report 2006: Subsidies, Trade and the WTO

The core topic of the World Trade Report (WTR) 2006 is subsidies. The report explores this area of policy in terms of how subsidies are defined, what economic theory can tell us about subsidies, why governments use subsidies, the most prominent sectors in which subsidies are applied, and the role of the WTO Agreement in regulating subsidies in the context of international trade.

“WTO economists have carefully scrutinized the use and the impact of government support in a variety of sectors. While some subsidies can benefit society and can offset the negative externalities of economic activity, other types of government support are clearly more controversial and can be damaging. One significant part of our Doha round negotiations involves reducing subsidies which distort trade while encouraging governments to use other forms of support which can facilitate development and environmental protection. Shifting support in this way is politically difficult and requires determination and courage, but the evidence is clear that such reforms can level the playing field and provide real rewards across the board.” .

Pascal Lamy
Director-General

Extract from the Summary of this report: Agriculture Page xxxii

The bulk of domestic support is provided by three Members – the EU, the United States and Japan. During the 1995-2001 period, the EU spent an average of US\$96.1 billion on domestic support, followed by the United States with US\$66.2 billion and then Japan with US\$41.8 billion. After the top three Members, the amount provided by others trails off very quickly. The fourth largest provider of support, the Republic of Korea, averaged US\$7.5 billion.

Australia is a member of the Cairns Group of countries which includes Canada who lobby together for trade liberalisation. The reduction in subsidies and a more proactive approach to trade liberalisation by the USA and the EU would not only assist developing countries but also assist their primary producers to become efficient and eliminate trade distortions created by subsidies which are impacting on welfare and efficiency of the pork industry in Australia.

Finding 4.4 Productivity Commission Inquiry Report No 35, 8 March 2005

Government assistance provided to Australian pigmeat producers is also low. The types of assistance are similar to those available to producers in Denmark and the United States.

Extract from WAPPA Supplementary Submission 26th January to the 2005 Pigmeat Inquiry

Exports and imports

It is noted in the Draft Report that in the past six years Australia has become increasingly integrated into world pork markets. Pork imports increased from \$40 million to \$219 million, while exports increased from \$56 million to \$195 million. WAPPA accepts that in the long term, the competitiveness of pig production businesses will be driven by sustainable international cost advantages and/or product differentiation. However, WAPPA has difficulty understanding how this can be achieved when our international competitors, particularly Denmark, receive substantial subsidies.

To quote from the Draft Report page 50 Box 3.5 Government Assistance and Danish Export Prices for Pigmeat: “The OECD (2004) estimated the total value of EU support to the EU pigmeat producers in 2003 was about A \$0.41 per kilogram” (Source: OECD; Danske Slagterier 2004).

This is supported by Professor Claire Nixon on pages 183/184 where she states: “The level of support can also be expressed on a product weight basis. The OECD estimated that producers in 2001 in Australia, Canada and the United States received less than \$US 0.7 per kilogram, while producers in the European Union received \$US 0.29 per kilogram.”

WAPPA accepts and understands that exchange rates play a part in the competitiveness of Australian pork on the export market and vice-versa for imported product.

We also refer the Commission to APL’s second submission, pages 127-138 Appendix G: Subsidization and Market Distortions in Key Competitor Markets: “With the level support our major competitors receive, WAPPA wants to be informed of what actions the Commission believes are required by the industry to make itself internationally competitive and, more particularly, the role government should play in the industry achieving this goal”.

Based on the comments that were made at the Public Hearing in Perth on Friday 28th January on subsidies, WAPPA submitted the following request to the PC on Friday 11th February.

WAPPA believes the Terms of Reference for the Inquiry will not be fulfilled unless the issue of subsidies is untangled and reported accordingly to the industry.

Given the supplementary information that is now on the PC website it is critical that the background research and the accuracy of this information is reported in a manner that the industry will understand and accept.

WAPPA is of the opinion that the level of producer/stakeholder support both direct and indirect received by the industry’s major competitors has not been adequately researched or reported on accordingly. A prime example of this is the Single Farm Payment payments that apply in Denmark. Reference: USDA Foreign Agricultural Service Gain Report, Date: 3/17/2005, *GAIN Report Number: DA5003, Denmark Trade Policy Monitoring CAP Reform Implementation in Denmark 2005*, Approved by: Roger A. Wentzel, U.S. Embassy Prepared by: Hasse Kristensen/Morgan Perkins.

WAPPA re-iterates that the Terms of Reference for this particular inquiry will not be fulfilled unless the issue of subsidies is untangled and reported to the industry.

WAPPA therefore proposes that the:

- Productivity Commission recommends to the Australian Government that the scope of this inquiry be broadened to examine the annual level of support in subsidies/producer-stakeholder support schemes, both direct and indirect, that profit the production of pigmeat in the three major importing countries, namely Denmark, Canada and the USA. The purpose of which is to impose the same level of support/tariff protection to the Australian Pigmeat Industry, which may include countervailing duties.

- Productivity Commission recommends to the Australian Government that all pigmeat imported into Australia is produced under an internationally recognised on-farm Quality Assurance program which complies with Australia's Food Safety Standards.

These measures would assist in producing an equitable balance in trade that will maintain imports for the processing sector at a sustainable level and create an environment which will improve economic efficiency and growth in the Australian Pigmeat Industry.

For the Australian Pigmeat Industry to become globally competitive it must continue to pursue a goal of producing a superior product with improved genetics, quality feed, and supply chain efficiencies. This will enable the industry to gain a competitive advantage in the local and international protein market, particularly as a supplier of fresh chilled carcasses and cuts to the Asian market.

Such a position will only be achieved if the industry has the capacity to compete in a global market on the same terms as our trading partners.

2.6 Factors impacting on prices to producers

The sharp increase in imports in recent years, particularly in 2006/07, have had a profound impact on the industry through their effects on sapping the confidence of producers creating a situation where a number have exited the industry.. This situation must be balanced against the reduction in production over the last three years as (forecast by industry analysts in 2004) and the drive by the industry to grow the fresh pork market which has been highly successful.

With a diminishing supply of local product for the processed market and an appreciating exchange rate, processors imported product to satisfy the processed market. The periodic drought in WA over recent years has reduced the grain harvest below historical expectations. Although there has been a stable supply of grain the drought in the eastern states has increased demand for WA grain increasing the price for local producers. This factor and the surge in imports have had a constraining ability on domestic prices to rise when faced with higher domestic demand and/or higher costs of production.

Extract Abare Report: Feedgrains Regional Demand and Supply in Australia April 2007

The increase in feedgrain requirements and lower feedgrain availability in eastern Australia are likely to result in greater interregional feedgrain movement (tables 12–13) and interstate grain movement (tables 14–15), particularly into Queensland and Victoria. In 2005-06, Queensland supplied an estimated 79 per cent of its feedgrain requirements, while in 2006-07 only 36 per cent of its feed requirements are estimated to be met from in-state production. The remaining feed requirements (2.2 million tonnes) in Queensland will be met largely by increased transfers of grain, mainly wheat and barley, from New South Wales and Western Australia.

Model results also suggest the possibility of a significant increase in transfers of barley and oats from Western Australia to Queensland and Victoria (tables 16–17).

This is evidenced in case studies one and three in this submission where the processor who purchases the pigs have increased the farmgate price to sustain operations but the price increase is not sufficient to offset the increase in the cost of production created by increased grain prices.

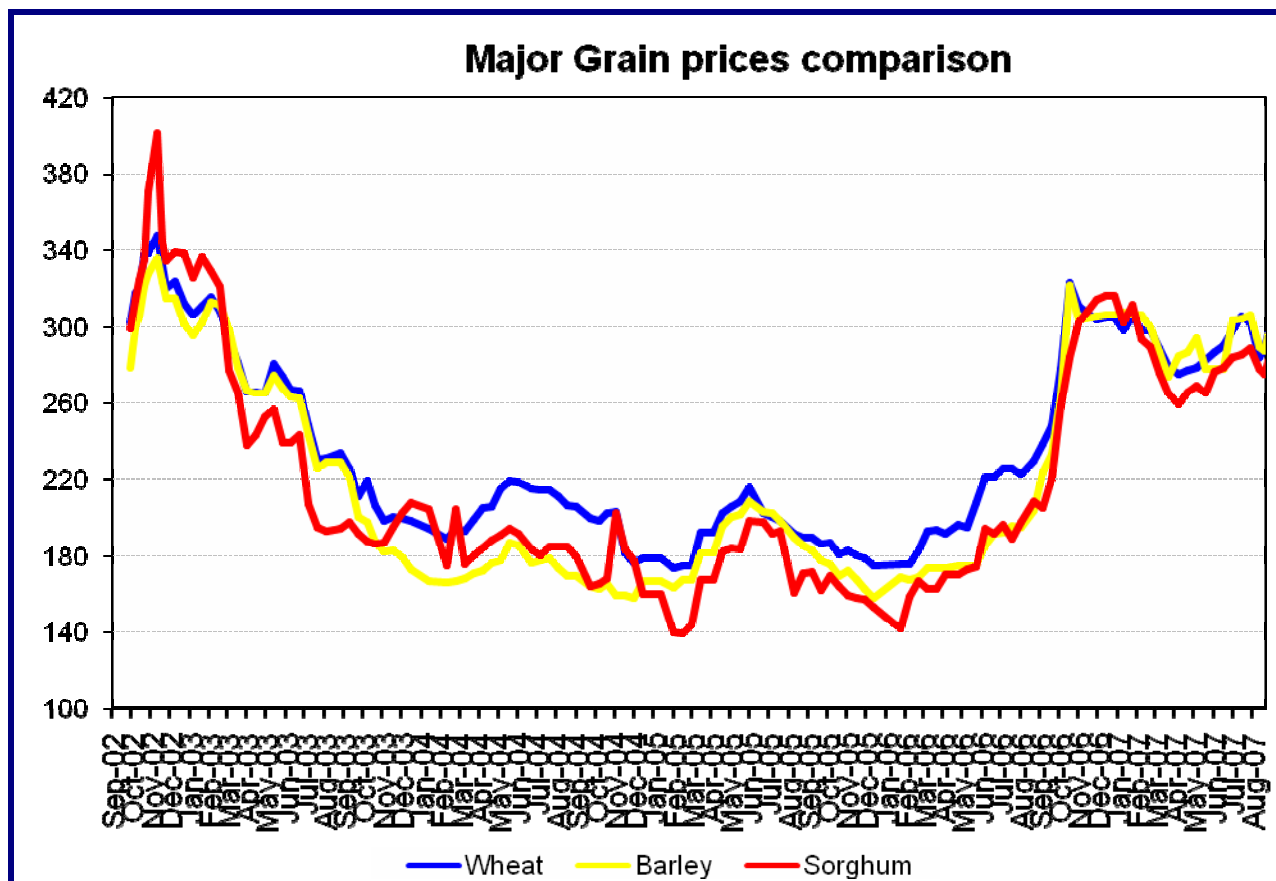


Chart 13 Source:APL

The Productivity Commission acknowledged in the 1998 Safeguards Inquiry the link between imports and domestic prices. In summary it stated:

“In particular, with import competition, an increase in demand for hams, or other processed products which use imported pigmeat, will not translate into an increase in the domestic price of legs and pigs. If imported leg pork is highly substitutable with local leg pork, seasonal premiums for hams, for example, could be eliminated altogether. Imports thus effectively impose a price ceiling on the price of pork legs, with the height of the ceiling determined by international prices rather than local market conditions”.

The Commission further summarised the impact of imports on pork prices when higher grain prices occur:

“Any rise in pig prices due to a rise in feed or other costs of growing pigs will be moderated by the availability of imports — more of the adjustment will occur through a reduction in domestic supply than without imports”.

The trading environment in the last year clearly paints this summary to be accurate but on a much larger scale due to the continued farmgate price squeeze created by the level of imported product as highlighted in the following graphs particularly from September 06 to June 07 and the case studies of the production units. Although some processors were aggressively moving imported product the level held in cold storage has put downward pressure on prices in the last six months.

One Western Australian processor has advised the industry that they are moving towards using eighty per-cent of imported product for processing.

Based on current market condition two of the three production units used in these case studies will either reduce their sow herd in one case with the other one further reducing their sow herd in the first quarter of 2008.

2.7 Unforeseen Developments

This can be traced back to the decision by the Australian Government who in 1994 pigmeat accepted a bound tariff rate of zero imports of pigmeat under the WTO Agreement on Agriculture effective from 1st January 1995. When governments make decisions such as this on behalf of the industry without consultation or consideration to the future impact it could have the investment and competitiveness of the industry they must accept the social and economic responsibility that goes with the decision. Therefore it is now the responsibility of the Australian Government no matter how reluctant they may be to accept the role they have played in creating the current industry environment and work with the industry to create an equitable balance in trade between the industries major competitors particularly Denmark and the USA.

2.8 Exchange Rate

WAPPA accepts the fact that Australia now competes in the global trade for pigmeat. We understand that the Australian dollar appreciates and depreciates relative to our trading partners however the appreciating aspect of the dollar has had a contributing factor in loss of export and an increase in imports.

This was a key factor contributing to the decline in competitiveness between mid-2002 and the end of 2003 when the Australian dollar appreciated relative to the currencies of the countries exporting pigmeat products to Australia with the dollar appreciating by 33 per cent against the Canadian dollar between January 2003 and April 2004, it appreciated by 13 per cent against the Danish krone.

Although this trend eased in 2004 when the exchange rate changed and stabilized remaining steady before appreciating again in the past eighteen months further impacting on the industry's ability to compete globally leading to an absolute increase in imported pigmeat and particularly from the USA.

The impact in the fluctuation in the exchange rate on imports and exports would not be as great on the Australian pigmeat industry if Australian producers had the same level of direct and indirect subsidies and producer support that benefit our trading partners particularly Denmark and the USA. It is the view of this organization that this issue must be dealt with by this inquiry as it believes this in part is the root cause of the injury being inflicted on the industry by imports.

The following graphs highlight the impact the exchange rate has had imports and exports:

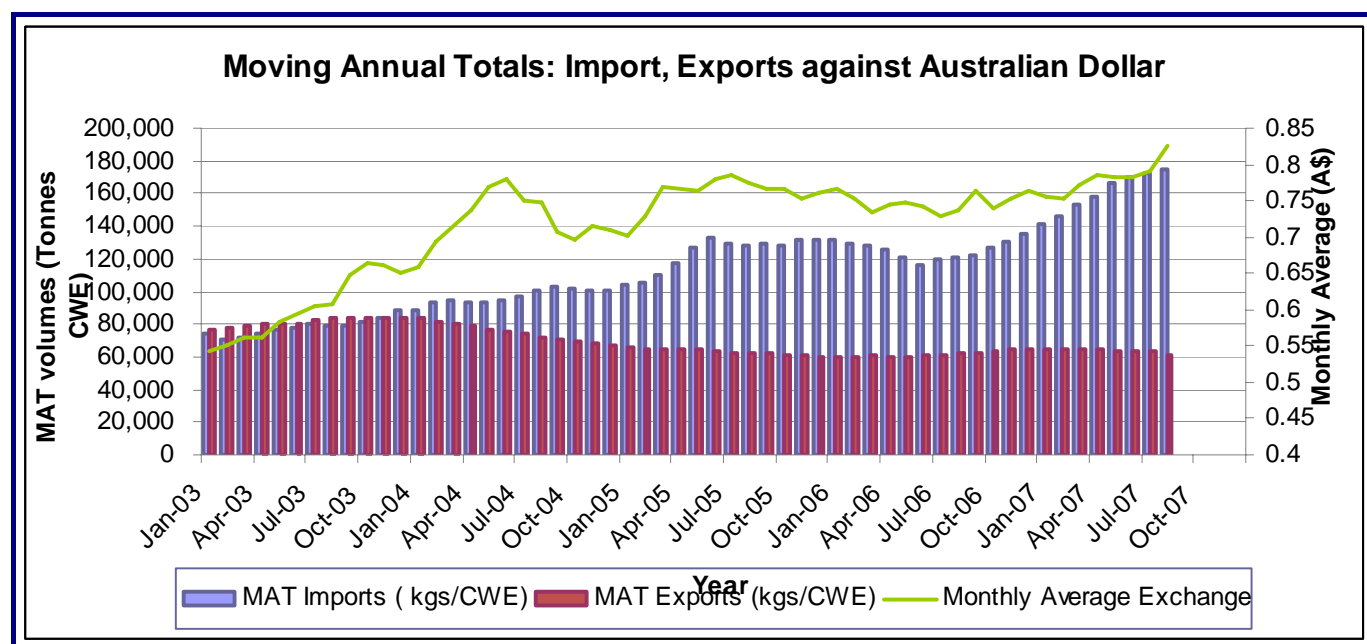


Chart 19 Source APL: Imports, Exports against Australian Dollar

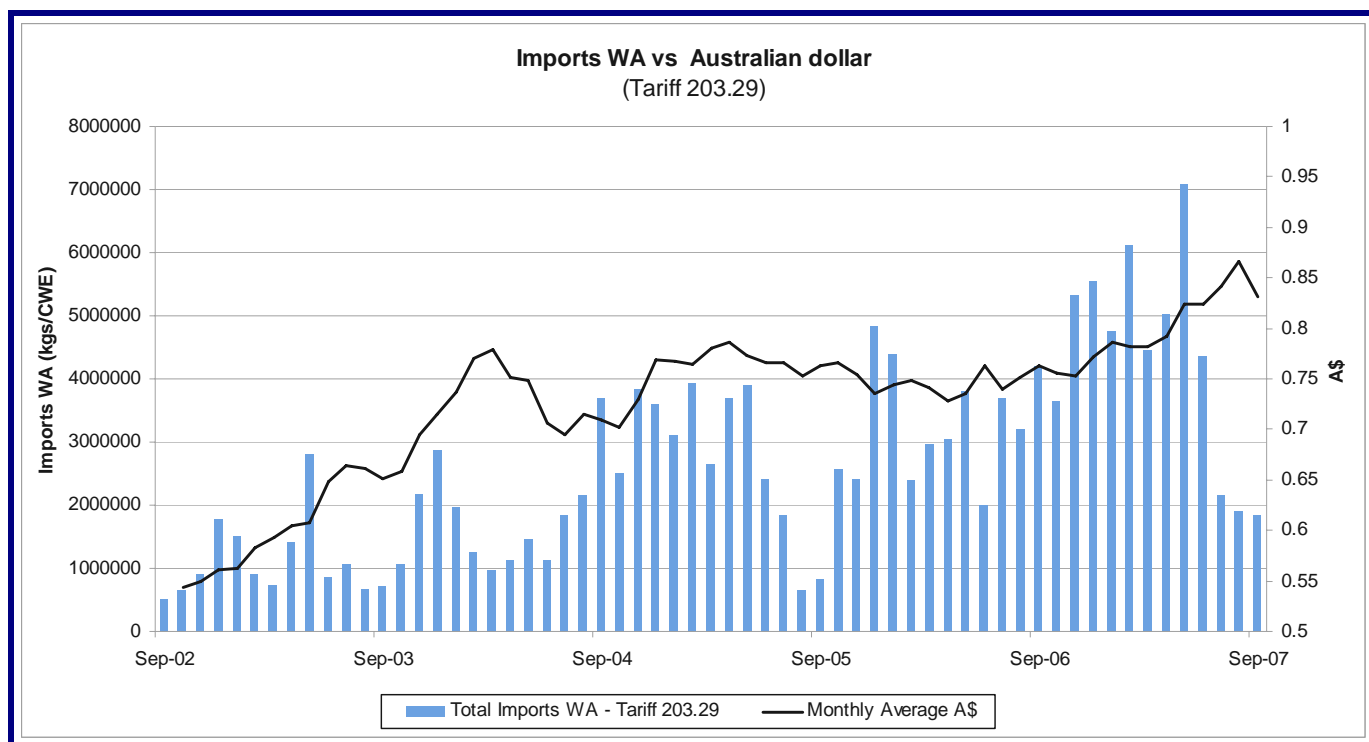


Chart 20 Source APL: WA Imports, Exports against Australian Dollar

2.9 Productivity Commission Test Met

When the 1998 inquiry found safeguards were warranted to protect the pigmeat industry, the Commission stated that the following tests had to be satisfied to impose safeguards:

- Identify products which are like or directly competitive with the imported product;
- Identify the domestic industry producing those like or directly competitive products;
- Establish whether or not imports have increased;
- Determine whether the domestic industry is suffering serious injury or is threatened with serious injury;
- Determine whether imports are the cause of serious injury;
- Identify the measures which would remedy serious injury and facilitate adjustment.

The test to warrant a safeguard measure in based on the 1998 inquiry have once again been met but on a much larger scale and are noted in the following summary:

Productivity Commission Test	Circumstances today
Products which are like or directly competitive with the imports	Tariff sub heading 0203.29 which covers: Boneless Frozen Swine Meat Boneless Frozen Swine Meat,leg cuts Boneless Frozen Swine Meat,middle cuts Boneless Frozen Swine Meat, shoulder cuts
Domestic industry producing those like or directly competitive products	1998 Safeguards inquiry determined that whilst the product imported is processed, both processors and pig producers constituted producers of the “like product”. This reflected the integrated nature of the pork industry. The level of integration has continued with 25% of the WA sow herd is vertically integrated with a processor. All pigs in WA are now sold by direct consignment with 95% slaughtered at PPC/Linley Valley’s WA’s only licensed export abattoir

Increase in imports?	Increase in imports from Canada, Denmark and the USA have increased in absolute terms. Increase in imports as a % of consumption has grown from 18% 02/03 to 34% 06/07
Domestic industry is suffering serious injury or is threatened with serious injury?	The substantial surge in imports and increased cost of grain have had a constraining ability on domestic prices to rise when faced with higher domestic demand and/or higher costs of production impacting on the viability of producers and the stability of the industry.
What measures which would remedy serious injury and facilitate adjustment?	<p>WAPPA proposes that the:</p> <ul style="list-style-type: none"> Productivity Commission recommends to the Australian Government that the scope of this inquiry be broadened to examine the annual level of subsidies, both direct and indirect, that support the production of pork in the three major importing countries, namely Denmark, Canada and the USA. The purpose of this inquiry would be to impose the same level of support/tariff protection to the Australian Pork Industry, which may include countervailing duties. Productivity Commission recommends to the Australian Government that all pork imported into Australia is produced under an internationally recognised on-farm Quality Assurance program which complies with Australia's Food Safety Standards.

3 Opportunities for the WA pig industry

- Development of long-term contracts for sourcing of grains specific to the production of pork from local industry
- Development of niche markets in countries other than Singapore for export of WA pork including assessing the potential of the Indian market and the opportunities in Japan and South Korea based on the proposed Free Trade Agreements with these countries.
- Stable Governments makes WA attractive for overseas investment
- Strong Australian dollar makes overseas investment attractive
- Reduce environmental load by changing specifications and composition of diets
- Subject to the pig type required by the processors increase carcass weights to reduce the cost per kilogram to improve on farm profitability. Greater emphasis by key industry stakeholders to improve co-operation and to share the risk particularly on farm
- Constant supply of current grain types and ample water for pig production
- Develop on farm training to up-skill producers to adopt technology necessary for international competitiveness.
- Lobby State and National Governments for tax incentives for producers and industry stakeholders to invest in their own facilities that will either improve holding capacity for grain and/or water, or better use both water and grains via improved feed conversion efficiency. (i.e. better facilities) has advantages in the short and long term.

Impact of Exports on overall business performance (growth in exports, revenue and percentage of sales)

Year	Value of sales revenue from export (\$A)	% change in value of export from previous year	Export sales as % of total sales revenue
2001-02	7m	+180	14.8
2002-03	9.7m	+38	16.8
2003-04	15.9m	+64	23.7
2004-05	21.8 m	+37	34.0
2005-06	24.4 m	+12	35.9
2006-07			
2007-08			

Demonstration of market orientated export behavior

PPC has been defining export markets and developing high quality products tailored to specific market needs. Establishing brand credibility and the use of 'clean and green pig production' systems has been crucial. Alliances, point of sale material, visits to export markets and hosting visits to Perth for overseas buyers has cemented excellent relationships in Singapore and other markets and given a better understanding of the market dynamics and targets.

PPC management has created a very strong working relationship with AVA, Singapore's quarantine body. This provides Singaporean authorities with an absolute assurance of PPC's product quality in the first instance and total transparency if any issue were to arise. This has enhanced Australia's reputation and PPC's commitment to providing top quality pork.

Product development for export markets

PPC has export markets in Singapore, Thailand, Korea and China. PPC's product development strategy starts before the pigs are even born and has included investing in a number of supply farms, and:

- selecting genetics, feeding regimes and on-farm management strategies to improve the quality of chilled pork and specialty offal;
- implementing eating quality pathways for different export markets;
- installing state of the art equipment (e.g. the Butina stunning system to ensure highest animal welfare considerations, Rovani scald systems for optimal carcass skin colour, chiller systems to allow differential chilling regimes to enhance pork colour for Singapore and New Zealand);
- using SASTEK electronic data system from carcass information through to electronic invoicing;
- rapid adoption of new product quality interventions developed by the Department of Agriculture and Food.

Establishing constant supply of pigs was another challenge PPC had to face to satisfy ever growing demand for Australian pork products in Singapore. One key area for a successful abattoir operation is in planning day to day supply and availability of animals. With an average 2500 pigs per day, excellent systems and a strong relationship with local suppliers is required. PPC pays more than its competitors for pigs within the right weight and fat range knowing that overseas customers will pay more for higher quality. This pricing policy has been constant through recent drought conditions. Since PPC entered the pig industry in 1999 when the industry was struggling its commitment to maintaining a consistent pricing schedule has given many WA pig growers the confidence to remain in the industry and expand.

PPC Wholesale Food Service (PPC) has implemented a \$3.4 million investment in a new superior boning system for its Wooroloo abattoir that has seen it become a world leader in pork processing technology. PPC installed (October 2007) the most sophisticated pork boning technology in Australia, making its boning room one of the world's most advanced.

This is the next major step in the company's growth and development strategy. After visiting Australian and overseas boning rooms, PPC found most systems were based on conventional boning and failed to address product

traceability, a key factor in food safety and QA. PPC management investigated the Marel boning system, which offered:

- 100 per cent traceability from product to butcher and producer;
- minimised manual handling;
- increased productivity with product automatically flowing constantly to boning staff;
- ability to measure and increase product yield while increasing productivity (around 20%).

Overseas buyers will now have traceability from farm-gate to the dinner plate. PPC will further enhance the safety of its top quality range of products meeting increasing world-wide food safety concerns.

The Marel system has shown that integrated random checks at the QA station results in fewer defects, increasing product value. This adds to PPC's suite of systems, which include:

- manipulation of pork colour using differential chilling regimes;
- pork colour monitoring using chromameters;
- regular objective pork quality audits to ensure products meet market requirements.
- metal detection equipment

To provide overseas customers with more uniform product of higher quality PPC is trialing a new ultrasound grading system for fat measurement. Together with the new boning room technology, this lets the farmer know where their product was sent. Overseas customer's feedback on acceptability of the fat content will be used as a tool for continuous improvement and, therefore, will strengthen PPC market presence. To help improve belly fat, quality feed trials on farms started in March 2007.

CMG Commitment

The Craig Mostyn Group is committed to the Western Australian agribusiness sector, and in April 2007 the PPC Linley Valley abattoir received approval from the Shire of Northam to build a \$20 million state of the art sheep and cattle processing facility. This facility will ultimately offer jobs to more than 100 people, mainly from the local community, helping not only to build the social and financial future of the community, but also an export driven business generating jobs and wealth for Western Australia.

PPC In Summary

Business operates as 4 cost centres. LVP abattoir service provider, PPC exporter and domestic marketer. PPC farms and PPC export. Total turnover around A\$100 million.

LVP slaughters around 98% of WA pigs and is WA's only export abattoir.

PPC's plant (Establishment 618), which includes service kills for D'Orsogna and GWF, supplies 56% of all fresh pigmeat sold in Singapore

Annual kill approx 600,000.

PPC weekly kill 4200,GWF 2800 and D'Orsogna 1400.

PPC employs 200 people on-site.

An 80 year old Australian privately owned company, PPC parent Craig Mostyn Group, relocated CEO and Head office from Sydney to Perth in January 2006.

Conclusion

The primary role of the Productivity Commission is to identify impediments to the development of the Australian pork industry. It must also have due regard to the important relationships between the improved use of resources in one sector and the rest of the economy. It is only with this sort of information and economy-wide focus that governments can make sensible and considered choices as to future policy- choices that will ensure better and more sustained growth prospects for all Australians.

A recommendation to the Australian Government by the Commission to support the industry in a meaningful manner so it can compete equally with our major trading partners will play a key role in sustained growth prospects for the Australian pork industry. This will in turn provide major long-term benefits to the Australian economy and to employment opportunities and the future of rural areas.