# Productivity Commission Submission
## Pig and Pigmeat Industries: Safeguard Action Against Imports
# South Australian Farmers Federation
## October 1998

### Introduction
The South Australian Farmers Federation welcomes the opportunity to make a submission to the Productivity Commission on the review of the "*Pig and Pigmeat Industries: Safeguard Action Against Imports*."

The Federation is an agripolitical organisation made up of membership of over 40% of the state's farming population. The Federation represents members in all issues affecting agriculture and rural life. Like all state farming organisations, the South Australian Farmers Federation has a clearly identified role to improve the sustainability and profitability of our members.

The Commercial Pig Section who tenders this submission, has a membership base of 325. The Commercial Pig Section represents pigmeat (pork) producers on a state, and at times national level, on all issues affecting the industry.

This submission is based on our belief that pigmeat imports have caused serious injury to the State's domestic pork industry. For the purpose of consistency, the submission identifies "the domestic pork industry" as Australian producers of pigs and therefore pork, for the purpose of consumption.

It is important to state up front that the Commercial Pig Section is not against free trade, but requests sensible and appropriate adjustment measures to assist the industry's development into a world pork competitor.

The Commercial Pig Section is looking for ways forward and out of the financial and emotional heartache of recent months. The State's domestic pork industry is in the planning stages of developing an Industry Strategic Plan in an attempt to overcome the import situation and subsequent volatile price movements.

The submission that follows attempts to capture some of the work we are doing in terms of developing strategic direction for the South Australian pork industry.

This submission is broken into three parts:
- A vision for South Australia,
- The domestic pork industry and adjustment measures, and
- Factors affecting the profitability and competitiveness of the industry.

# Part 1: Vision

In the latter part of this year, a series of workshops are planned for pork producers, processors, retailers and the State government to develop strategic direction for South Australia.

The Commercial Pig Section's vision has been developed from the National Pork Industry Development Group's vision. Our vision will be fine-tuned as we meet later in the year with other industry stakeholders.

*The South Australian pork industry will be focused on alliances between all groups from gate to plate. Integration within each section of the industry, facilitating improvements in production, processing, manufacturing and marketing will be the key to South Australia's success.*

*South Australia will develop and establish export orientation, providing impetuous for the expansion of the State's production base.*

*Cooperation at each level in the value chain  will deliver a more equitable distribution of the value created to all sectors in the industry.*

# Part 2:
# Domestic Pork Industry and Adjustment Measures

## 1.0 The Make-up of Australia's Pork Industry

In June 1996, there were approximately 3,500 pork producers in Australia, with just over 2.5 million pigs. Only 30 years ago, in 1969, Australia had more than 40,000 pork producers, however, the number of sows has remained similar (320,000 in 1969 and 290,000 in 1996). This dramatic drop in the number of pork producers (91%) with the maintenance of pig numbers shows the adjustments and enormous structural changes that have been occurring in the industry. Unfortunately, this structural change has come at a time when the industry has had to cope with import surges.

Pork production is an integral part of Australia's agricultural economy when you take into account contributions to the gross value of agriculture (2.5% in 1997) and rural employment. In 1996/97, 325,590 tonnes of pork was produced in Australia and the gross value of Australian pork production was $800 million.

### 1.1 The pig industry in South Australia

In September 1997, South Australia had 665 pig herds, with almost 48,000 sows and about 400,000 pigs. This represents approximately 16% of the national herd.

The decline in the number of pork producers in SA has corresponded to the national decline, with an average of 4% of producers leaving the industry each year. This is well above the national farmer attrition rate of about 1.5%. The impact of this rate of producers leaving the industry is that the remaining operators are required to increase their efficiency and must invest more capital to do so.

Two thirds of SA's herds are smaller than 50 sows, about 20% are between 50 and 100 sows, and only 15% are larger than 100 sows. This means that 15% of producers are responsible for 65% of SA's pig production. Further, just 1.4% of producers are responsible for one third of pig production in SA.

In 1996/97, 29,845 tonnes of pigmeat were produced in SA, and the industry contributed over $106 million (gross farm gate value) to the State's economy. These figures do not correspond with pig numbers in SA because a significant proportion (up to 70%) of SA pigs are slaughtered in Victoria due to a lack of processing capacity in SA, particularly export processing capacity.

Well over 1,000 people are directly employed in the pig production industry in South Australia, with large indirect employment through the industry's use of 250,000 tonnes of grain each year, along with fuel, building materials, medicines, transport and other inputs.

## 2.0 Have Imports Increased?

The pork industry has been facing a below-cost of production price situation for over nine months, which can be apportioned between pigmeat imports and market manipulation by monopsonistic behaviour of Australian importers/retailers ie., the threat of unimpeded imports has been used to drive domestic farm gates prices below cost of production.

Table 1 outlines the volume and value of pigmeat imports. From a plateau of about 2,500 - 3,000 tonnes in the earlier part of the decade, imports have suddenly surged to in excess of 10,000 tonnes in a little over two years, peaking at 11,000 tonnes in 1998. In terms of value, imports have gone from an average of approximately $14 million to $41.2 million of the domestic industry's worth.

**Table 1 Imports of Pigmeat into Australia**

| Year | Volume (tonnes) | Value (million $ Aust) |
|---|---|---|
| 1989/90 | 928 | 3.1 |
| 1990/91 | 2,703 | 12.5 |
| 1991/92 | 5,097 | 19.9 |
| 1992/93 | 2,617 | 11.4 |
| 1993/94 | 2,967 | 13.0 |
| 1994/95 | 4,451 | 16.6 |
| 1995/96 | 4,132 | 15.6 |
| 1996/97 | 9,985 | 41.2 |
| 1997/98* | 10,402 | 41.2 |

*12 months to March 1998

Source: Australian Pork Corporation (unpublished data)

According to the Australian Pork Corporation, current trends do not indicate any significant easing from this peak, and go on to suggest that if imports are not restrained, the industry could see another situation where imports surge to a high point in a similar short period.

Given this information, it is clear that imports of frozen, boned pigmeat have increased in absolute terms and relative to production.

## 3.0 What is the Industry?

The South Australian pork industry comprises pork producers (breeders and growers), abattoirs/processors, manufacturers and retailers. The Federation represents pork producers.

For the purpose of definition, imports currently comprise frozen, boned legs which are subsequently processed as smallgoods.

As outlined in the Issues Paper, the Agreement on Safeguards defines the domestic industry as comprising producers of *like* products or products *directly competitive* with imports.

It is generally acknowledged that the Australian sector most "like" the imported product is the pork processing sector ie., the products they process are the same as the imported product.

Having ruled out a relationship with "like" product, we contend South Australians produce products of a "directly competitive" nature to the imports in so far as Australian pigmeat is used for a similar end purpose.

Canadian and Australian pork producers grow pigs which are processed into products for consumption. In the case of the current imported frozen, boned legs, the product has been derived from a whole pig and is therefore directly competitive with Australian pigs.

When pigs are sold direct for slaughter in Australia, the ownership of the pig changes once it has been trimmed and weighed (eviscerated). At this point, the live pig has been turned into a carcass and has a classification of "pigmeat" or "pork" which is the basis on which producers receive payment. This method of selling is similar for Canadian pork producers.

The price individual pigs attract is based on their Hot Standard Carcass Weight (HSCW) and is agreed upon before the pig is slaughtered. Price (cents per kilogram) is usually dependent on saleyard or market indicators, or as has recently been the case, the level and price of imports processors can access.

Part 2, Section 1.2 of this submission has a detailed background of South Australia's output capacity. In summary,

- South Australia currently has 665 pig herds (1997). This is made up of, 48,000 sows and about 400,000 pigs and represents approximately 16% of the national herd.
- 15% of producers are responsible for 65% of SA's pig production. Further, just 1.4% of producers are responsible for one third of pig production in SA.
- In 1996/97, 29,845 tonnes of pigmeat were produced in SA. The industry contributed over $106 million (gross farm gate value) to the State's economy. Although 70% of South Australian pigmeat is traded into Victoria.
- Over 1,000 people are directly employed in the pig production industry in South Australia.

In conclusion, it is evident that imports of frozen, boned legs were once part of a whole pig and South Australian producers also grow pigs for a similar end purpose. In the vast majority of cases, Canadian and South Australian producers sell direct for slaughter and receive a price based on carcass weight.

Given that producers from both countries are producing the same product (carcass) and furthermore, pork is the major input which makes up the products imports are destined for, it can be argued that Canada and Australia have a "directly competitive" relationship.

## 4.0 Has the industry suffered or is likely to suffer, serious injury?

Performance data outlined in the following section and Attachment 1 detail evidence of "serious injury" South Australian producers have experienced as a result of imports.

The Pork Council of Australia is currently undertaking a national survey on the financial impact current import levels have had on pork producers. We are confident that the national survey will provide substantial evidence that a significant impairment of the domestic industry has occurred as a direct result of imports.

### 4.1. Significance of the event

In response to the unimpeded supply of imported pigmeat, the dramatic drop in prices (50% over nine months) could not have been foreseen by producers and is of a magnitude that the industry was completely unable to plan for.

According to available data, the average cost of producing pigmeat is $2.00 per kilogram and the May price was $1.28/kg, representing in excess of $40 lost on every pig sold. Up until four weeks ago, prices in the second quarter of 1998 have remained in the range of $1.30 to $1.45 per kilogram in the sale by classification market.

Pork producers are only able to sustain losses of this magnitude for a very short period of time (only a few weeks).

All pork producers in Australia have been severely affected by the drop in prices over the last nine months. However, the price crisis has been particularly severe in South Australia, with prices being about 40 c/kg carcass weight below Eastern States prices.

Due to the lack of processing capacity in SA, a significant proportion of our pigs and pigmeat are exported to the Eastern States (live to Victoria and in carcass form to NSW). This means that SA is a "top up" source of pigs and pigmeat for interstate buyers. The implication is that, in times of ample supply of pigmeat, such as the present situation with increasing import quantities, demand for SA pigs and pigmeat drops dramatically, forcing prices even lower than in the Eastern States.

Some producers have been able to partly protect their income until now because they were producing under previously-agreed supply contracts. However, the majority of these contracts have now been nullified, with processors seeking to have them set aside due to the significantly lower prices.

A recent report by Purcell and Harrison[1] (1998) indicates that the Federal Government decision to allow pork imports from Canada and Denmark has transformed the Australian pig market into a global market, which will therefore be influenced by global supply and demand processes.

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[1] "The effect of imports on the Australian pig industry" Tim Purcell and Steve Harrison, Dept of Economics, University of Queensland, Preliminary draft, 26 April 1998.

There is also concern that, as a result of the changed market, a small number of importers/retailers have excessive market power, amounting to a monopsony, enabling price management of domestic supplies at unprecedented (and unsustainable) low levels, with little evidence of retail price benefit to consumers.

## 4.2 Financial impact of the event

South Australian pig prices have been less than average production costs since October 1997, with SA prices dropping from approximately $2.60 per kilogram (liveweight) in March 1997 to $1.35 (liveweight) in March 1998 (see Figure 1 below). The average cost of producing one kilogram of pigmeat is about $2.00 (liveweight - this is merely an average and actual costs will vary according to debt levels and capital structures), so SA prices have been $0.65 below the average cost of production. The price dropped to an all time low of $1.28 per kilogram in May this year, and after an initial price rise last month, we are seeing prices trend down again.

The price movement seems to be following a trend of the past 18 months, were we saw prices trend up after mid year and taper off in the three months to Christmas. Traditional pricing trends indicate that prices started to decline in December/January and this early decline can be attributed to increased volumes of imported leg product.

An average pig carcass weighs approximately 70kg, so a loss of $45 per pig on average has been borne by SA producers. For a small to average SA piggery with 100 sows, this equates to a weekly loss of almost $1,600 (an annual operating loss of more than $80,000). Clearly, this situation is unsustainable, even in the very short term.

**Figure 1 SA Pig Prices 1990-1998**

Source: SA Pig Sale By Classification
*Data supplied by John McKay, Jemco Agencies P/L*
*Graph by Glenn Ronan, PIRSA*

There are now more then 100 pig producers as clients of Rural Counsellors in South Australia, a significant increase on client numbers 6 months ago. Reports from Rural Counsellors in some of SA's major pig producing regions (Lower North, Mid North, Yorke Peninsula and Murraylands) show that a significant adjustment process is occurring as a direct result of the pig price situation. For example, nine out of eleven Rural Counsellor clients in one of these regions whose primary business is operation of a piggery have a negative budgeted cash flow for 1997/98 and all of them are incurring monthly losses between about $1,000 and $10,000. Equity ratios are as low as 40%.

Nine of these eleven clients are in a declining financial position, four of whom are planning to leave the industry and one of whom is in the process of selling their property. Reports from other regions show that these financial trends are reflected across the industry, regardless of both geographic location and the size of the piggery operation.

The capital required to operate a piggery (sheds, feed storage etc) is very specific to the pig industry and is often of a disproportionately high value compared to the land where it is located. The result of these factors is that the farms of those who wish to exit the industry are likely to take years to sell and will not receive a return on capital in proportion to their investment. In fact, producers are facing a massive capital write-down if they decide, or are forced, to sell. In addition, given the current economic state of the pig industry, not many people are likely to be interested in purchasing a piggery operation.

According to reports from Rural Counsellors, lack of ability to purchase basic requirements such as food and clothing is becoming a key issue for a number of pork producers in SA. They are unable to quickly realise their assets (as outlined above), they get a below-production cost return if they sell their pigs, and they must keep feeding their pigs, so cash flow is an enormous problem. A potential animal welfare problem also exists, with some people facing the choice of whether to keep feeding pigs or the family.

Further exacerbating the problem is that many producer families are unable to seek off-farm work to offset their pig production losses due to the intensive nature of the industry and the need for constant supervision of the pigs.

Pork production systems are intensive in nature, and the need to keep feeding pigs is an enormous burden, given that feed costs represent approximately 60-70% of the production costs of each animal. This is 60-70% of the total cost of producing a pig which cannot be reduced in response to market pressures. However, the cost of feed grain and other factors inhibiting the competitiveness and profitability of the industry will be discussed later in the document.

Attachment 1 outlines some of our members farm gate prices over the past three years and their financial situation. As you will see, their market prices for the sale of pigs demonstrates that there is a direct link between the sudden surge in imports and their dramatic loss in income.

In conclusion, South Australian producers have undergone, and will continue to undergo, serious injury as a result of imports. It is apparent that the current plateau level of imports is having a direct effect on their profitability and capacity to compete on a newly internationalised Australian pork market.

The sudden exposure of Australia to the world pigmeat market has fundamentally changed traditional pricing arrangements and has also opened a window of opportunity to a small number of importers/retailers who are manipulating domestic prices on the basis of import volume with little evidence of retail price benefit to consumers.

## 5.0 Are imports causing serious damage?

Attachment 1 outlines performance information from some of the Commercial Pig Section members. According to our members, they believe imports are the problem for their current financial situation. The Pork Council of Australia (PCA) and Australian Pork Corporation (APC) will also be submitting national evidence of the link between imports and downward spiralling producers prices.

### 5.1 Performance of the Australian Economy

Performance of the Australian economy and gross agricultural output has shown consistent growth over time. In 1997, Australia’s gross agricultural turnover was 12.5% and the Australian pig industry has proven to be a significant contributor to this figure (2.5%).

The Australian pig industry’s performance is in line with other agricultural industries. In fact, second to chickenmeat, the pig industry has proven to be one of the largest income and employment multipliers.

There has been an underlying assumption that the current situation would “right itself” as the Australian dollar decreased and Canadian imports subsequently pricing themselves out of the local market. As the Australian Pork Council has previously submitted, this is clearly not the case, as Canadian product has been dropping in line with a decreasing Australian dollar. It is evident that Canadian exporters are prepared to carry a loss in order to keep Australian market share.

### 5.2 Weather conditions

Weather conditions have not had an affect on the productivity of South Australian pork producers since the drought in 1995 which saw feed grain prices escalate to such a point that massive adjustment occurred in the industry.

### 5.3 Changes in consumer preferences

Consumer preferences have remained relatively stable with only marginal changes in the domestic per capita consumption. Pigmeat consumption has been relatively stable except for the 1995 drought when rapid rises in feed grain prices saw a reduction in production therefore consumption.

## 5.4 Productivity

The Australian pigmeat industry has undergone enormous changes over the last 30 years and these changes in response to external pressures are continuing. Average herd sizes per farm in the industry have increased more than ten fold since 1969 reflecting the need for producers to increase their scale in order to remain competitive.

The industry has responded positively to issues which have become increasingly important to markets and consumers, such as reducing chemical and antibacterial residues in meat, setting animal welfare standards, developing quality assurance standards, increasing carcass weights, reducing fat scores and adopting guidelines which protect the environment.

## 5.5 Cost of Inputs

Unlike the 1995 inquiry into the pork industry, input costs have not played a significant role in the present industry demise. Feed grain prices have come down significantly since then and whilst accounting for 60-70% of production costs, the situation is currently manageable. Factors affecting profitability and competitiveness will be addressed in Part 3 of this Submission.

The Commercial Pig Section has also been working closely with the South Australian Government in developing their submission on the factors affecting profitability and competitiveness, particularly in the areas of feed grain costs and scale of the industry.

## 5.6 Impact in prices of substitutes

Purcell and Harrison come to terms with this issue both in their report and at the public hearing. They state that in the saleyards, cattle prices have come down relative to pig prices however at a retail level prices have remained static. Purcell and Harrison[2] go on to say that “if there was going to be a substitution effect in consumption away from pork, you would expect that the retail prices for cattle would be falling relative to retail prices of pork.”

## 5.7 Structure of the Industry

There are a number of variables driving the profitability of the domestic pork industry. Historically, producers received greater prices in the second half of the year as processors sought out legs for the lead up to Christmas. The price drops from January through to June when the demand for legs lessens. Traditional price trends have changed since late 1996 when imports started to flow in on a magnitude which gave processors greater scope to source legs elsewhere, thus depriving Australian producers of the assurity of price increases in the second half of the year.

In Australia, legs are the most sought after and well paid of all pigmeat primal cuts and as such, are the key price drivers in the industry. Other cuts such as the loin and shoulder, are considered secondary to the leg, although these cuts are proving to be popular with our export markets.

[2] Tim Purcell, Transcript from the Productivity Commission Public Hearing, Brisbane, Wednesday 19 August.

Whilst it is acknowledged that the level of imports is only 5.2% of total domestic production, the 11,000 tonnes of frozen, boned leg imported this year actually comprises 30% of the Australian leg market. In simple terms, this means that for every 1 kilogram of processed smallgoods, 300 grams has been derived from imported product.

Given that the leg market is the principal price driver, the magnitude of imports is clearly affecting the industry's ability to make a profit based on traditional pricing trends. It is clear from this that the imports have taken a marginal market, which happens to be the principal price driver for the industry, and subsequently had a significant impact on domestic whole pig prices.

### 5.8 Flow-on effects

The natural flow-on effect from a number of South Australian pork producers exiting the industry is magnified in the small regional centres they contribute to. As one of the larger income and employment multipliers in the State, the loss of the pork industry to rural and regional communities could be devastating. In some instances, feed grain suppliers have extended credit beyond their business limits, as has local veterinarians, and building suppliers. Banks are coming under increasing pressure to re-evaluate clients financial positions and even the viability of servicing the town. Feed grain suppliers, millers, agribusiness consultants, accountants and retailers are also affected by a significant loss of income within the towns.

### 5.9 Conclusion

The South Australian pork industry has been seriously damaged by the current import plateau. Whilst the overall level of imports coming in is relatively small, the frozen, boned legs are used in only one domestic market which happens to be the principal price driver for the industry.

South Australia traditionally "exports" live pigs or carcasses to interstate markets and as a result are more susceptible to radical changes in the supply and demand process. The current level of imports is taking away significant market share South Australia generally enjoys and we are experiencing a seriously detrimental pricing arrangement as a consequence.

Beef saleyard and pig prices have come down similarly but there has been little change in the retail prices for both products, indicating that the substitution issue is having little impact on the pork industry. The fact that there has been little variation in retail prices, suggests that producers and consumers alike are being "squeezed" for the healthy profit margins of others in the industry.

## 6. What safeguard measures would remedy serious injury?

The industry's commitment to become a player on the world market can be seen from the in-roads it has made in recent years in export markets, particularly Japan and Russia. To access these markets has required the industry to increase its production base and it is currently in the throes of doing so. During the time that this process is underway, the industry is particularly sensitive to short term overproduction, as the increased production base will not always be accurately matched to increased exports. This is the situation in which the industry now finds itself, with the fine balance being upset by the unregulated flow of product from Canada. However, production at this point in time, does not exceed production levels in 1995.

National exports of pigmeat have increased by 72% since 1989/90, from 7,478 tonnes to 12,884 tonnes in 1997/98 (12 months to March 1998). This trade is worth approximately $35 million each year, with our major export customers being Japan, the Russian Federation, New Zealand, France and Hong Kong. Nevertheless, Australian pigmeat exports represent only about 4% of national pigmeat production.

Nationally, the pork industry recognises the potential opportunities in export markets, however it is also aware of the many difficulties of successfully entering these markets and maintaining them in the long term. A continued low-valued Australian dollar could assist industry's efforts to develop sustainable export markets.

Domestic pigmeat producers need some assurance of manageable import quantities if they are to expand to bring about the critical mass for efficiencies in slaughtering, economic throughout and available quantity to meet the specific demands of the Japanese market in particular.

South Australia is disadvantaged at present in trying to develop an export trade due to lack of export processing capacity in this State. Japan requires that abattoirs and boning rooms be located on the same site, and SA's processing plants do not have this capacity. This means that SA pigmeat bound for Japan must be freighted interstate where some plants have processing and boning operations on the same site.

The proposed export-accredited pig processing plant to be established at Murray Bridge will provide the SA industry with a marketing option which is critical to the future of a long-term viable pig industry in our State. The proposed development will have a processing chain and boning room on the same site, enabling exports to Japan (as well as many other countries) direct from SA. The current price crisis is posing a threat to this project and it is very important it goes ahead for the future of the South Australian industry.

## 6.1 Adjustment requested

The Commercial Pig Section supports the national position that the following safeguard measures would provide the industry with sufficient remedy to the injury sustained through increased imports,

- A tariff quota of 5,120 tonnes, with an out-of-quota tariff of $2 per kilogram.
- The tariff-quota to be in place for four years to allow for industry adjustment under World Trade Organisation guidelines.

⇒ This quota has been worked out on the basis of Canadian imports over the period of 1994/95 to 1996/97. Canada accounts for 80 - 85% of import share and is clearly having the biggest impact on the domestic industry's profitability.

⇒ A 10% growth factor could be factored into the quota allowing for an expected normal growth in trade and progressive adjustment to take place in the industry.

⇒ We suggest that the quota be allocated along historical market share ie., Canada would receive 80 - 85% of the quota.

The Commercial Pig Section believes the proposed measures provide sufficient adjustment for the domestic industry to develop into a newly globalised market by,

- Improving the domestic price situation. The threat of unimpeded imports has seen a dramatic reduction in farm gate prices as processors drive them down on the basis that they will expand import volumes if local prices are not accepted. The temporary quota takes away the threat of unimpeded imports.
- Provide “breathing space” to the domestic industry in terms of building infrastructure for developing export markets and “global trading village” adjustment for individuals.
    - ⇒ In recent years, the industry has commenced exporting to countries such as Japan and Russia and opportunities for breaking into other markets continue to arise. Before more aggressive marketing can take place, Australia needs to undertake significant infrastructure expansion. The capacity of existing abattoirs to export is limited however a number of new export facilities are in the planning process. This takes time and the adjustment period will allow Australia to build up to a production level capable of filling export orders without compromising the domestic industry in the meantime.
    - ⇒ In coming to terms with “global village trading”, Australian pork producers need to get some market power back from the recently created retailer/importer monopsony. Long term contractual arrangements with prices built in are required if Australian producers are to be competitive with other countries.
- The four year period would also lead to a normal pattern of adjustment so that the efficient producers (not usually affected by price depression) could remain in the industry. Under present circumstances, these producers are being forced out of the industry because they have undertaken expansion in the past two years which has seen their debt to equity ratios dip alarmingly. There could be a detrimental effect on the longer-term competitiveness of the industry if these producers continue to be pushed out as a result of their drive to expand operations.
- The short term assistance would provide an immediate income-support assistance to pork producers where cashflow is an enormous problem.

## 7.0 Conclusion

The Australian pig industry requires adjustment assistance in the face of unprecedented and unpredicted market conditions, with the impact in South Australia being particularly severe. Producers have been unable to meet their costs of production for the last nine months.

All South Australian producers are in a significant loss making situation as a result of the opening of the Australian market to unlimited alternative supply and the ability of Australian importers/retailers to exercise monopsonistic market power ie., to achieve retail sector benefit to the detriment of domestic producers and without benefit translating to Australian consumers.

The Commercial Pig Section contends that,

- Import levels have surged shapely in the past 18 months causing serious injury to the profitability and competitiveness of the domestic industry,
- Australia's pig producers produce "directly competitive" goods to that which is imported,
- The domestic pork industry has suffered serious injury as a result of imports and this is likely to continue if imports continue at current levels,
- An adjustment package of safeguard measures is the most appropriate way to allow the industry to develop into a competitive industry in the global trading village. The adjustment package to consist of a temporary quota of 5,120 tonnes and an out-of-quota tariff of $2/kg with a 10% growth factor for four years.

# Part 3
# Factors Affecting Profitability and Competitiveness

Pork producers are traditional price takers, like the majority of agricultural industries. That is, pork producers accept a price either in the open market or by contract price. Rarely does the industry have the capacity to set the price.

Given that producers are 'price takers', the focus of increasing competitiveness will be a reduction in the cost of production. To this extent, three of the major factors which drive structural change in the industry and those likely to have a significant impact on the future include:

- Input and overhead costs,
- Transport and fuel costs,
- Technology and R&D.

## Input and Overhead Costs
Feed grains are by far the most significant input cost in any pork production enterprise (up to 70%) and therefore the most important factor to impede or promote profitability and competitiveness.

At present, domestic grain is openly sold at much higher rates then export grain and although the domestic feed grain industry has been deregulated it continues to place Australian producers at a competitive disadvantage to cheaper imports. Furthermore, the inaccessibility of world competitive grain prices is a disincentive for export market development.

*Australian agriculture industries reliant on feed grain as a major input should have access feed grain at world competitive prices.*

### Transport and Fuel Costs
Pork producers in parts of South Australia face significant transport and fuel costs as a result of geographic distance to markets. Furthermore, South Australia faces exacerbated transport costs when compared to other states because we sell a significant proportion of pigs and carcasses interstate.

*We are yet to see any positive price impact as a result of the recent deregulation of the fuel industry. Fuel rebates remain an important concession to rural Australia.*

### Technology and R&D
Pork producers rely heavily on new technology to improve efficiency and hence increase competitiveness. Australian producers contribute annually to organisations like the Pig Research & Development Corporation (PRDC) and the Australian Pork Council (APC) to develop and promote technology and product innovation. This commitment

from producers ensures Australia continually comes out on top with worlds best practice.

The Federal Government's announcement of an increase in funding and relaxation of the Terms of Reference for the National Pig Processing Grants Program has opened doors for greater long term technology development although it remains to be seen how this will impact on the shorter term viability of producers.

*At a time when technology and product innovation is most needed, producer contributions are reduced which impacts directly on the funding base of organisations like PRDC and APC. It is important the Federal government continues to support and fund technology and R&D in the pig industry.*

Other factors which inhibit the competitiveness of the Australian industry include,
- High construction costs for piggeries and abattoirs,
- Cost of export inspection arrangements which are currently borne by the industry, and
- Limited export orientation - greater relationships between AUSTRADE, Australian Pork Council, Pork Council of Australia and PRDC need to be developed.

The Australian pork industry requires significant adjustment if it is to increase export share. Not all factors affecting the industry's profitability and competitiveness can be improved, however if changes are made to a significant few which then creates a lower cost structure, greater market penetration and share will follow.

A more efficient industry would require significantly less government assistance.

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