

A SUBMISSION OF DATA

TO THE

PRODUCTIVITY COMMISSION
PIG AND PIGMEAT INDUSTRIES INQUIRY

BY THE

AUSTRALIAN PORK CORPORATION
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The Pigmeat Industry Import Crisis: The Commercial Story

The Australian pigmeat industry is an efficient and productive Australian rural industry.

Number of pig herds and breeding sows(Slide 1)

In its continual drive for efficiency over the years the industry has undergone massive rationalisation. From the mid 1970's the industry has rationalised and upscaled from 40,000 producers to the current 3,500 producers, while sow numbers have remained static. The industry has got smart and organised itself. It has not relied on Government support schemes or regulation. It is unsubsidised.

It has consistently delivered real price reductions to the consumer and is the most efficient Australian meat industry next to the chicken meat industry. By the measure of real price reduction, the pork industry is twice as efficient as the Australian beef industry and the sheepmeat industry.

Indicated market share percentage (Slide 2)

The industry over the past 25 years has increased its share of Australian meat consumption from 10 to approximately 17-19 kg per person in recent years. The recent drop in share was a result of drought in 1994 causing extremely high feed prices during 1995, which led 1000 producers and 30,000 sows to vacate the industry.

Recent slaughtering levels indicate that consumption will return to the 19kg level as sow numbers increase.

Clearly pork and chicken have been the shining lights of the Australian meat industry over this 25 year period capturing market share over red meats through excellent industry rationalisation driving quality, innovative marketing campaigns and a focus on health.

The industry is helping itself and managing its own future with a clear focus on competitiveness.

Monthly Pig slaughterings and production(Slide 3 and 4)

Production has increased from 230,000 metric tonnes in the early 1980's to approximately 330 - 340,000 tonnes in mid to late 1990's with a similar sow herd again exemplifying the massive productivity gains the industry has achieved.

The industry is not overproducing in the current climate nor has it been misreading the market.

PIG SLAUGHTERINGS

ABS slaughterings are inaccurate and consistently underestimate actuals based on levy collection by 200,000 pigs annually.

APC forecasts do not show a return to excessive levels of production so market oversupply has not been due to local production.

PIGMEAT PRODUCTION & CONSUMPTION

Generally, Australia consumes the pigmeat it produces plus imports, minus exports. Production on the following graphs is calculated as slaughterings based on levy collection multiplied by the average carcase weight.

Note the gap between consumption and production in 1997 which is due to imports. Thus increased supply in the market is due to imports and it is not increased production which has caused an increase in supply. In fact production has been declining since the industry lost 1,100 producers in the drought of 1994-95 and this decline had only started to level off in late 1997 and early 1998.

APC PROMOTION

APC promotion spend in dollars has not halved. In fact spend on marketing and sales promotion activities has been fairly static in dollars over the last 6 years but the impact of APC activity has been diluted because of increased costs of TV and magazine advertising and the undertaking of new activities in the food service market without an increase in head count in the sales promotion field force. For instance in 1992-93, the Corporation had 49 part-time promotion officers and demonstrators working in butchers and supermarkets. In 1998-99, there are 39 staff working in butchers, supermarkets, clubs, hotels, restaurants and catering outlets.

Pigmeat imports (Slide 5)

From mid July 1991 through to July 1996 imports remained fairly steady and manageable between 3000 - 4000 metric tonnes per annum. From July 1996 imports increased rapidly- more than doubling - to peak at 11,000 metric tonnes in 1997. Current trends do not indicate any significant easing from this new import plateau. If not restrained, imports will again surge to a new high plateau, most probably in a similar short period to the recent import surge period

Canadian Imports as a Share of Australian Lea Production(Slide 6)

The current 11,000 metric tonne plateau now represents just under 30% of legs for leg ham production in Australia. That is, for every 1 kg of boneless leg ham purchased at a deli or supermarket 300 grams will have originated from Canadian raw material.

This import penetration is highly significant in commercial terms. Canadian imports are exclusively boneless legs. This has a disproportionate impact on the domestic industry.

Percentage of Imports vs Price (Slide 7, 8 and 9)

There is clearly a trigger at a point above 10% of Canadian imports as a percent of leg ham production that causes the domestic pig price to fall.

It is critical to note that the driver of pig prices in Australia from June- July in any year are processors seeking legs for their Christmas ham production.

In 1997 for the first time in 25 years the industry saw pig prices falling during the July-December period. This is clearly linked to the very high level of imports and industry clearly agrees that processors were being 'filled up' with cheap subsidised Canadian legs at the expense of Australian legs.

Furthermore, all other inputs/factors were within 'normal' bounds. The massive increase in boneless leg imports was the only key input variable during 1997.

Imports of boneless leg meat is the key factor that caused Australian pig prices to collapse.

IMPORTS VERSUS CONTRACT PRICE OF BACONERS

The crash in pig prices in 1997 was due to the oversupply caused by the escalation of imports by ham and bacon manufacturers which was aimed at reducing pig prices from the 1996 and early 1997 levels.

Price of pigmeat imported from Canada Vs \$AUS / \$CAN(Slide 11)

There has been public speculation that the pork industry has had a 'defacto subsidy' due to exchange rate decline. That is, the cost of the Canadian legs should have risen to the Australian importers. Clearly this is not the case. In fact, in recent months the price has reduced to Australian importers rather than rising.

Certainly domestic prices have fallen in North America, however, they still have support 'structures / subsidies' that Australian producers do not enjoy and Canadian exports have easily been able to absorb the effect of recent \$A devaluations. There is no commercial evidence to suggest that recent exchange rate gyrations have altered the commercial reality that the surge of Canadian boneless legmeat imports will return to the 'normal levels' of pre 1996.

The commercial reality is that imports, if not temporarily restrained, will continue their relentless upward surge and destabilise the Australian industry's drive for positive structural adjustment and further international competitiveness.

Pork Council of Australia
29 June 1998

Base Prime 1991-98 (Slide 10)

This internal Bunge chart shows the history of price across Australia's Eastern States for 8 years, clearly showing where price finished in 1997 and thus opened in 1998 at its lowest level for over 10 years and how it has subsequently crashed as a result of the huge imports in 1997 and confirms the fear of this continuing during 1998 particularly during the second half of the year.

Current prices are realising a loss of about \$4M per week to industry