



# **PRODUCTIVITY COMMISSION INQUIRY**

## **Initial Comments and Data**

### **Pig and pigmeat industries: safeguard action against imports**

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## 1. INTRODUCTION

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- The Association welcomes the opportunity to make some initial comments to this important Inquiry.
- We intend to present a formal submission prior to the deadline - which we understand is 18 September 1998.
- The NSW Farmers' Association is the largest private representative farmer organisation in Australia, comprising 15 000 members engaged in rural production throughout New South Wales.
- The Association represents the interests of pig farmers, along with those involved in broad acre livestock and cropping industries, horticulture, oyster production and other intensive industries such as eggs and chicken meat, in NSW on all issues affecting agriculture and rural life.
- The Association is well known and respected for its role in economic reform, especially reforms to trade in farm products.
- Australia's recognition as a 'force' in multilateral trade negotiations is largely due to the pressure exerted by this Association and others like it, through the national body, the National Farmers Federation. This spurred the Australian Government to form, in 1986, a negotiating bloc (the Cairns Group) of medium sized trading nations with strong agricultural sectors. A bloc that went on to ensure that the Uruguay Round multilateral trade negotiations in 1994 did not end until the resulting agreement included agriculture.
- Throughout the Uruguay Round and on many occasions since, the Association has been vocal in its call for the momentum of trade reform to be maintained.
- Most recently, when the US and the EU again traded blows in the beginnings of a "subsidy" war which illustrated that the world grain market remains subject to high levels of distortion.
- The Association also continues to pursue reforms in areas that currently impede Australia's international competitiveness.

## 2. BACKGROUND

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### 2.1 Australia's system in the international context

- Australia, especially its farm sector, operates in a global market so changes that affect our ability to compete apply as much to our ability to defend our domestic sales against imports as they do to our exports.
- Australia has a relatively small domestic market and, although agricultural exports make a significant contribution (around \$22 billion per annum) to the national trade account, is a small player in most international commodity markets.
- It is therefore essential that a liberal, rules based system be sought to ensure the long term prosperity of Australian agriculture.
- In the same way that Australian farmers selling into world markets are “price takers” for much of their production, ie. that production has little bearing on the world market price, Australians in the international arena are “policy takers”. Although Australians can and do influence the development of policy and what is on the table, the final result is determined by the major powers. The Uruguay Round is an example of this, where Australia through the Cairns Group succeeded in ensuring that agriculture was included in the agreement but the final terms were largely the result of negotiation between the major trading nations.
- Despite the successes of the Uruguay Round which has given us both a set of rules (the various agreements on agriculture, on dispute resolution, on safeguards, etc) and an umpire (the World Trade Organisation panels), there is still a long way to go. Members have begun to “decouple” support from key commodity market variables and move to measures which are less distorting but the agreement still permits members to retain and use high levels of market-distorting measures.
- Australia plays an important role in lobbying for further reform of agricultural trade - particularly in its role as Chair of the Cairns Group. This role will be increasingly important in the preparations for and during the WTO round of negotiations on agriculture scheduled for 1999. It is important that Australia retains credibility as a free trading nation so that its ability (and that of the Cairns Group) to push for further reform is not diminished.
- **The Association recognises this and is convinced that any actions taken to safeguard any industry must conform with internationally agreed trade rules. However, it is equally important that Australia ensure that it makes full and effective use of the measures legitimately available under those rules.**

## 2.2 Comparative levels of support

- Unlike many of the main players, such as the United States of America (US) and the European Union (EU), Australia does not have either an export subsidy program or a farm income support system.
- Australian farmers receive some of the lowest levels of support in the world. At the equivalent of US\$3 per hectare of agricultural land in 1995, well behind the EU at US\$854 and Japan at US\$14,088.<sup>1</sup> Expressed in producer subsidy equivalents (as percent of value of production) Australia (at 10%) is well below the OECD average (36%) for livestock and well below the top three: Japan (49%), Europe (46%) and Canada (29%).<sup>2</sup>
- The Association is investigating updated information and the particular assistance levels for pork producers and intends to provide further information in its final submission.

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<sup>1</sup> OECD (1997)

<sup>2</sup> ABARE (1998)

### 3. FACTORS INFLUENCING AUSTRALIAN PIG PRICES

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#### 3.1 Price

Traditionally the Australian market price for pig meat fluctuates seasonally with a price peak before Christmas and a trough from April through to June. However, as competition from imports has increased, the market has flattened as processors and retailers are able to import large amounts of pig meat (particularly leg ham) to adequately meet the increased Christmas demand and has not allowed the price to move upwards.

**Table 1: Australian pigmeat prices**

Year	1st June	16th December	Seasonal Variance
1995	190 c/kg	232 c/kg	+ 42 c/kg
1996	235 c/kg	260 c/kg	+ 25 c/kg
1997	205 c/kg	212 c/kg	+ 7 c/kg
1998	165 c/kg		

As can be seen from this table as the competition from imports has increased, the seasonal increase in pig meat prices has also reduced.

The significance of this is that producers who rely on the increase in pig meat prices before Christmas to lift their overall profitability have been progressively disadvantaged. Also the prices received for a particular season have decreased over the past 12 months (December 97 and June 98).

In summary, the pig meat market has changed considerably over the past four years and is now much "flatter" and generally much lower prices are received by producers.

#### 3.2 Imports

Imports of pig meat into Australia have risen during the time that Australia has been importing pig meat. However over the past four years imports have increased annually and quite substantially. The table below shows the level of imports and the increases in their levels.

**Table 2: Imports of pigmeat**

Year	Import Tonnage	Increase (tonnes)	Increase (%)	% Total Market
1994/95	4,450	1,484	33	2.0
1995/96	4,132	- 318	- 7	2.1
1996/97	9,985	5,853	141	5.2
1997/98	10,175	190	2	5.2

As can be seen from this table, whilst imports only occupy a relatively small share of the market tonnage, they have increased substantially over the past three years.

### 3.3 Exports

Statistics showing export tonnages of pig meat are corrupted by the inclusion of feral pig meat. However it is possible to determine the level of farmed pig meat by applying the percentage of farmed pig meat to the total. This is shown by the table below.

**Table 3: Exports of pigmeat**

Year	Total Exports (t)	% Farmed	Total Farmed Exports (t)
1994/95	7,103	67.7	4,809
1995/96	7,043	71.8	5,057
1996/97	8,615	70.7	6,091
1997/98	14,119	83.9	11,846

This table indicates that exports have risen substantially over the last 4 years

### 3.4 Production

There are a range of factors that determine Australia's level of production. These include total sow numbers, pigs slaughtered and the average slaughter weight of those pigs. The total amount of pigs slaughtered has as much bearing on the level of production as does the average weight of those pigs. Sow numbers do not only contribute to the level of production but are a measure for Australia's capacity to produce.

**Table 4: Australian production of pigmeat**

Year	Sow Number	Pigs Slaughtered	Slaughter Weight	Tonnes
1994	320,000	5,172,400	67.2 kg	347,416
1995	290,000	4,995,500	69.5 kg	347,665
1996	290,000	4,671,000	69.3 kg	323,963
1997	299,000	4,700,000	71.0 kg	335,000

As can be seen from the table above the total level of production has varied by a total of 7% over the past 4 years, however is now 3.6% lower than it was in 1994. The contributors to this fall in production have been lower sow numbers and fewer pigs slaughtered despite a 5.6% increase in slaughter weights.

### 3.5 Consumption

The consumption of pig meat per capita has fallen by around 8% over the last four years but has only fallen by 1.6% over the past 12 months. This has been a concern to the industry and has resulted in increased promotional spending. Table 5 shows the consumption trend over the last four years.

**Table 5: Derived demand for pigmeat in Australia**

Year	Total Population	Total Consumption (t)	Average Consumption/capita (kg)
1994/95	18,071,758	365,743	20.2
1995/96	18,310,714	351,260	19.2
1996/97	18,532,247	348,674	18.8
1997/98	18,754,633	346,893	18.5

### 3.6 Market Share of imports

AQIS import protocols require all pig meat imported from Canada to be imported already cooked or imported frozen and then cooked in Australia before sale. It also requires that all imported meat be imported free of bone. This means that the boneless ham market is the only market sector that importers can penetrate. The figures for market penetration are tabled below. Imported Canadian ham now accounts for around 30% (Carcass Weight Equivalent, CWE) of the leg ham market. This is quite significant as this is a premium market for smaller producers that previously lifted the value of the whole pig. The result of this market share is that all ham prices in Australia now reflect world parity.

**Table 6: Market share**

	June 96	Dec 96	June 97	Dec 97	Jun 98
Market Share Canadian Ham (%)	9.70	18.30	26.60	27.60	23.50
Price Australian Ham \$	5.90	6.10	5.20	5.10	4.00
Price Canadian Ham \$	4.00	3.75	3.90	4.00	3.30

The table above indicates that the price of Canadian ham is substantially less than the price of Australian ham. As the price disparity between Australian and Canadian ham increases (June 1996 to December 1996) so too does the market share occupied by Canadian ham. Also as the market share of



Canadian ham reaches a substantial level (June 1997) the price disparity between the two products begins to diminish (June 1997 - 1998).

### 3.7 World Pork Prices

The three largest pork exporting countries in the world, in descending order, are the United States, Denmark and Canada. The United States and Canada export 41% of the world's pig meat and so are influential in setting world prices. The table below indicates this, using figures from the Chicago Mercantile exchange.

**Table 7: World market prices**

	<b>June 96</b>	<b>Dec 96</b>	<b>June 97</b>	<b>Dec 97</b>	<b>Jun 98</b>
Pork Bellies UScents/pound	70	80	74	55	55
Live Hogs UScents/pound	58	78	80	58	52

Prices in North America fell substantially during 1997 and into 1998 and so showed much the same trend.

### 3.8 Australian Fresh Pork Market

The Australian pig meat that is used for the fresh pork market is from much younger pigs (4 months - 65kg) than is used for bacon (24 weeks 90kg). As has previously been discussed, the contract bacon price has fallen in line with the price of imported ham, which fell in line with north American pig meat prices. This in turn has had an effect on the fresh pork market with producers being encouraged to sell their pigs earlier at an earlier age and so increasing the supply. (Source Rural Press)

**Table 8: Australian fresh pork and baconer prices**

	<b>Dec 96</b>	<b>June 97</b>	<b>Dec 97</b>	<b>Jun 98</b>
Fresh Pork A\$/kilogram	3.00	2.50	2.50	2.00
Contract Bacon A\$/kilogram	2.00	2.25	2.25	1.75

### 3.9 Producer Cost of Production

As has been the case in most primary production sectors, the cost of production over the past decade has increased remarkably. Producers believe the cost of production to be around \$2.00 per kilogram. When market prices fall below the cost of production the producer is forced to trade at a loss, as there are no opportunities to hold stock back from sale to wait for an improvement in the market price. Further information will be provided in the final submission.

#### 4. THE CASE FOR ADJUSTMENT ASSISTANCE

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- Protectionist policies primarily damage the protecting economy itself and are a luxury that Australia cannot afford. Such policies divert scarce resources from a more productive use and therefore reduce the potential of the economy to generate wealth.
- There is however a fundamental difference between industry assistance and adjustment assistance. Adjustment assistance provides the opportunity to adjust smoothly, *without detracting from the overall direction of change that is required*.
- The pig industry has undergone significant restructuring and has recognised the need to further adjust in order to compete internationally.
- The Government has recognised this and has recently provided specific measures to assist processors to adjust.
- These are long term measures and will not help the pig farming sector of the industry in the short term.
- The pork industry has experienced the effects of improved access for imports to Australian markets at a time that coincides with particularly low world prices. At the same time their ability to compete for the Australian consumer dollar is hampered by inadequate labelling laws - which prevent them from differentiating their product in a meaningful way.
- Although the Government has recently taken steps to address this issue introducing amendments to the Trade Practices Act, it will take some time before these measures can take effect.
- The import protocols effectively limit imports to boneless leg ham on health and quarantine grounds.
- In Australia, the leg ham market has traditionally provided a premium for pig farmers - especially the smaller producers. It is this market, especially in the weeks before Christmas, that provided the boost farmers need to maintain a flow of pigmeat onto the Australian market throughout the year.
- There is anecdotal evidence that ham is not a premium cut in other markets and that the products used in small goods will cost more to land as imports than when sourced locally. It appears that these other products (eg pork backfat and sow meat) are essential inputs for processed smallgoods.
- If the volume of imports - or the threat of imports - holds prices at current levels small local pig farmers will be forced to leave the industry and larger producers will reduce their herd sizes.
- The worse case possibility would be no Australian pig farmers with imports as the only source of pigmeat. This would have a “knock on “

effect for processors who would face increased input costs and falling profits leading ultimately to the loss of Australian jobs.

## **5. REFERENCES**

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*Agricultural Policies in OECD Countries, Measurement of Support and Background Information* (1997), OECD.

*Outlook 1998*, (1998), ABARE, Vol 2, p40.

*Pigstats97* (May 1998), Pig Research and Development Corporation and Australian Pork Corporation.