

**Queensland Pork Producers'
Organisation**

**Submission
to the**

**Productivity Commission
Inquiry**

**into the
Pig and Pigmeat Industries**

June - November 1998

Comment by the Queensland Pork Producers' Organisation

The Australian pork production sector of the industry has undergone significant restructure since the 1950's with productivity per pig farm increasing to maintain the equilibrium of supply and demand in the domestic market place.

The decision to alter the domestic equation in 1990 opened up this industry to the ravages of international competition where many nations had financial and other methods of support central to their trade structure in pork.

International agreements designed to limit and reduce the level of tariff and non tariff trade barriers and financial support measures appear not to be observed in the spirit and/or letter of the agreements by individual economies and/or trading blocs.

Australia's pork industry has the potential to become an increasingly active supplier of high quality value added porkmeat and porkmeat products to the world's markets. Steadily escalating populations and per capita wealth indicate that the long term outlook for pork producers is significantly brighter than the short term.

The industry needs time to act on the realities of bureaucratic decisions that have critically altered the historical trading pattern of the industry's domestic market. The QPPO believes similar decisions may occur for other primary industries as the realities of the 'globalisation' of world trade impact on their particular commodity.

In retrospect the QPPO is firmly of the opinion that processes currently being put in place may result in further decisions being made by the Australian Quarantine and Inspection Service and the Federal Government that will require far more dramatic change by the entire Australian pork industry than that experienced to date.

It is vital that time be afforded this industry to allow controlled adjustment to take place and not be propelled by the impact of uncontrolled imports. This orderly and planned restructure should lead to a pattern of 'normal' adjustment where profitable and competitive producers would remain in the industry under normal circumstances.

The current circumstances are not normal, with large numbers of producers currently considering their long term future or being compelled to exit the industry. Should this situation be allowed to continue through the lack of political will by the Federal Government to take positive, supportive and WTO legal actions, then one outcome of governmental indifference will be a critical deterioration of the ability of the industry to provide employment and livelihood for thousands of Australians and supply quality pork products to its domestic consumers and export to an increasingly 'open' world market.

This may lead to the point in time where Australia becomes an importer of porkmeat and manufactured porkmeat to supply its total domestic market requirements. However this dire prediction need not eventuate should the Federal Government provide an environment in which controlled adjustment can provide long term confidence in the future of the Australian pork industry.

Introduction

The QPPO welcomes the opportunity to make a submission to the Productivity Commission Issues Paper *Pig and Piguemeat Industry: Safeguard Action Against Imports* (the Inquiry) and to make comment on other matters the QPPO considers of relevance to the Inquiry.

Part 1: Safeguards Inquiry into Imports of Frozen Pigmeat

Step 1: *Have imports increased?*

The QPPO states Canadian porkmeat imported into Australia under tariff 0203.29.0012 of the Australian Customs Tariff has increased in absolute terms of import volumes relative to domestic production volumes (Fig 1) and import values relative to domestic values (Fig 2).

Fig 1

Volume Comparison Canadian Imports Tariff 0203.29.00.12 to Australian Porkmeat Production

Fig 2

A\$ Value Comparison Canadian Imports Tariff 0203.29.00.12 to Australian Porkmeat Production

Table 1

**Financial Year Volume (kgs) and Value (A\$) Imported Canadian Porkmeat
Tariff Classification 0203.29.00.12**

| Year | Volume Kgs | Val— A\$('000) | Average A\$ Value/Kg |
|-----------|---------------|-------------------|-------------------------|
| 1990/91 | 808 985 | 3 650 | 4.51 |
| 1991/92 | 3 595 894 | 12 533 | 3.49 |
| 1992/93 | 1405 578 | 5 010 | 3.56 |
| 1993/94 | 2 025 619 | 8 290 | 4.09 |
| 1994/95 | 3 470 282 | 12 437 | 3.58 |
| 1995/96 | 3 134 866 | 11591 | 3.70 |
| 1996/97 | 8 548 926 | 34 866 | 4.09 |
| 1997/98 | 7 985 073 | 30 908 | 3 87 |
| Aggregate | 30 975 223 | 119 285 | 3.85 |
| Average | 3 871903 | 14 911 | - |

Source: ABS

Table 2

**Calendar Year Volume (kgs) and Value (A\$) Imported Canadian Porkmeat -
Tariff Classification 0203.29.00.12**

| Year | Volume Kgs | Value A\$('000) | Average A\$ Value/Kg |
|-----------|---------------|--------------------|-------------------------|
| 1990 | 374 339 | 1644 | 4.39 |
| 1991 | 1685011 | 6978 | 4.14 |
| 1992 | 3105374 | 10283 | 3.31 |
| 1993 | 2191295 | 8634 | 3.94 |
| 1994 | 1692969 | 6598 | 3.90 |
| 1995 | 4025491 | 14030 | 3.49 |
| 1996 | 5809670 | 23211 | 4.00 |
| 1997 | 9074870 | 37076 | 4.09 |
| Aggregate | 27959019 | 108454 | 3.88 |
| Average | 3494877 | 13577 | - |

Source: ABS

Step 2: *What is the 'industry' defining producers of 'like' or 'directly competitive' goods?*

a) *What is the industry?*

The QPPO defines the 'industry' as various discrete production and other operations interrelated to produce porkmeat and value added porkmeat products for sale on the domestic and/or export markets.

The various operations are:

- pig farming (pork production)- the breeding and growing of pigs
- abattoir - the slaughtering and dressing of pigs to carcass and half carcass
- processing - the separation of carcass into primal cuts, and boning
- manufacturing - the value adding of porkmeat into porkmeat products
- wholesaling
- retailing
- importing
- exporting

A boning facility may be an integral part of an abattoir, or may form part of a manufacturing facility. Similarly an abattoir and boning facility may be incorporated within a manufacturing plant.

An analysis of the number of establishments with pigs 1950- 1997 is given below.

Table 3

Australian Establishments with Pigs

Source: ABS

It is interesting to note that following the massive restructure of pork producing operations that occurred over the years 1950 - 1980, the average number of pork producers exiting the industry 1990- 1997 was more than 2.7 times the average number exiting 1950- 1990, despite the expectation that these producers would be more productive and profitable.

Table 4

Summary and Analysis of Australian Porkmeat Industry 1976/77 to 1996/97

Source: ABS

A significant outcome of Britain's entry into the European Common Market in the 1960's was the evolution of the Australian porkmeat (pig) industry from being a supplementary activity to the dairy industry to becoming a fully discrete intensive farming industry.

With this emphatic change in fundamental farming operations, pig farmer numbers declined 25% in Australia from approximately 53 000 in 1950 to 39 500 in 1970.

Significant rationalism of producer number continued from 1970 to 1990 under the 'think big' rationale with a further 32 650 pig farmers exiting the industry throughout Australia over this period.

In 1980 19 280 pig farmers sold 3 913 200 pigs for slaughter producing 219 565 tonnes carcass weight of porkmeat, whereas in 1997 4 003 pig farmers sold 4 653 900 pigs for slaughter producing 325 914 tonnes carcass weight of porkmeat.

On average both the number and weight of pigs produced by each farmer had increased from 203 and 56.1kgs in 1980 to 1 163 and 70.0kgs in 1997 indicating substantial productivity increases per average pig farming operation.

b) *Define source of 'like' and 'directly competitive' goods*

In order to be able to define the producers of 'like' or 'directly competitive' goods, the QPPO believes a first requirement is to establish the nature and source of goods.

The QPPO notes the first Term of Reference for the Inquiry requires the Commission to:

'report the question of whether safeguard action is warranted against imports of meat of swine, frozen falling within Tariff sub-heading 0203.29 of the Australian Customs Tariff'

The relevant section of Schedule 3 of the Australian Customs Tariff is given below.

CUSTOM TARIFF
SCHEDULE 3

The QPPO has therefore concentrated its efforts to extract and comment on import data relevant to Australian Customs Tariff sub-heading 0203.29.00.12 MEAT OF SWINE Frozen Other.

The Macquarie Dictionary defines swine as the domestic pig, and further defines pork as the flesh of pigs. In the context of the Inquiry 'meat of swine' is the flesh of the domestic pig.

c) Define producers of 'like' goods

In general terms imports from Canada made under tariff subheading 0203.29.00.12 consist mainly of boned frozen legs of porkmeat which in compliance with the import protocol are subsequently manufactured into smallgoods in Australia.

An examination of the industry structure (refer Step 2:a) page 3 of this Submission) indicates these imported products enter the Australian porkmeat food production chain post the processing stage. Product imported under 0203.29.00.12 is in the process of being transformed (ie work in progress) from the basic form (the pig) to a finished form (manufactured product). Therefore the stage at which producers of 'like' product can be identified in a literal interpretation of paragraph 12 of the *Commonwealth of Australia Gazette* No.S297 25 June 1998 (the Gazette) is post boning, and prior to any manufacturing processes occurring.

The relevant stage within the Australian porkmeat food production chain where the imported product competes directly with the domestic product at the identical stage of transformation of porkmeat into porkmeat product is the point between the processing and manufacturing sectors, and any impact (volume and/or value) registered at the 'work in progress' stage (the introduction of imported porkmeat into the processing/manufacturing sectors) will flow throughout the industry in a negative and/or positive manner.

d) Define producers of 'directly competitive' goods

It is an incontestable fact that porkmeat (meat of swine) cannot be sourced without the breeding and growing of pigs. Therefore the source of 'directly competitive' goods in its most basic form is the pig. A further incontrovertible fact is that without the domestic pig production sector of the industry, the Australian industry could not produce 'directly competitive' goods.

It should be noted that whilst a small number of pigs are sold for slaughter at auction, pork producers retain ownership of the greatest number of pigs sold for slaughter through abattoir processes (stunning, slaughter, evisceration and primary dressing of the carcass) to the point of sale at scale where the value of the carcass is determined. In general terms the pork producer is selling a carcass (porkmeat on the bone) not a live pig.

Step 3: *Has the industry suffered, or is it likely to suffer, serious injury?*

The QPPO notes the World Trade Organisation (WTO) defines serious injury as a significant overall impairment in the position of the domestic industry, while threat of a serious injury means serious injury that is clearly imminent.

a) Has the industry suffered serious injury?

Prior to the decision being taken on 30 July 1990 (AQIS C. McKee pers comm) that allowed the importation of frozen pigmeat from Canada for manufacturing in Australia, all sectors of the Australian pork industry were inexorably dependent upon each other for their continued operation.

Post this decision date, the processing sector of the domestic industry was no longer totally dependent on the Australian production and supply of pigs for manufacturing purposes. As a result a significant level of uncertainty was introduced into the supply of pigs for manufacturing purposes.

A major outcome of the 1990 decision saw the previously guaranteed sale of 100% of pigs produced in Australia (fresh porkmeat trade, manufactured products and minimal exports) reduced to 30-40% of pigs (produced for the fresh porkmeat trade and minimal exports) as imports have the potential to meet the demands of the manufactured porkmeat sector of the domestic market.

Under normal trading and pig farming circumstances, and given that orders are placed on approximately the same day as mating of sows, two single orders can be placed in Canada, shipped and landed at Australian manufacturing plants in a gestation period (mating and farrowing 4 months) of the domestic pig herd. As a result pork producers confidence in projected financial returns that had been based on historical pricing patterns was now under severe stress.

Producer insecurity and scepticism in long term production, financial planning and investment in the engine room of the Australian pork industry has been propagated by Federal Government and Canberra bureaucracy decisions to progressively open up the industry to world trade without government assistance to minimise the impact of significant cultural change.

Producers lack of confidence since 1990 in the ability of the industry to provide correct market pricing signals that are fundamental to long term management decision processes has been a primary factor in large numbers of pork producers deciding either voluntarily or through pressure from financial considerations to exit the industry. This Australian trend (refer Table 4 page 4 of this Submission) is mirrored at the Queensland State level where over the period 1990 to 1997 an average rate of decline in excess of 3% in producer numbers is recorded by ABS data.

b) *Is the industry likely to suffer serious injury?*

A further decision was taken on 7 November 1997 to allow imports into Australia of Danish porkmeat for manufacturing purposes under a similar protocol that exists for Canadian imports. Whilst imports of Danish product under tariff sub-heading 0203.29.00.12 have yet to be recorded the potential for the Australian industry to suffer serious injury is greatly magnified due to the production and export capacity of the Danish industry.

PigStats97 indicates that Denmark (#2 of the top 10 world exporting countries) exported 470 and Canada (#3) 410 kilotonnes carcass weight respectively in 1997 to world markets. Australia's total production in the same period was 324.3 kilotonnes carcass weight.

The June 1998 issue of *Pig International* (pg 16 - 18 Vol 28 No 6) analysed the world's pork industry by seven regions and the top 60 largest countries for slaughtering and pork production in 1997. An indication of the relativities of the production and export capacity of Denmark and Canada to Australia is given below.

Table 5

A consolidation of the data reported for the seven regions of world pig numbers is given below.

Table 6

Source: Pig international

It is interesting to note that *Pig International* considered the inclusion of China as a region in its own right as pigs numbered 467 828 000 or 51.52% of the 1997 listed total pig population.

Data (number of pigs) is listed below relevant to those countries currently exporting or have a protocol to export, and those countries (USA, Mexico, South Africa and the KU) which may export to Australia at a future date subject to the outcome of the risk analysis process currently being established by AQIS.

Table 7

Source: *Pig International*

In order to assist the Commission determine whether serious injury is threatened, the QPPO makes the following comments.

i) Trends in imports, domestic sales and exports

a) Imports

Volumes and values of imports of porkmeat and porkmeat products July 1990 to June 1998 are presented below.

Table 8

Volume and Percentage Comparison of Imported Porkmeat, Porkmeat Products and Imports All Sources to Australian Porkmeat Production

Source both tables: ABS Totals may not add due to rounding

Note: Excludes Value pigs in Tasmania & Northern Territory

b) Domestic Sales (per capita consumption)

The Australian Bureau of Statistics (ABS) reports annual per capita consumption of porkmeat (inclusive of ham and bacon sales). A summary of the ABS data 1989 to 1997 is presented below.

Table 10

Australian Per Capita Consumption of Porkmeat

Source: ABS 4306.0 (Annual Data Subsequently Revised)

c) Exports

The QPPO can only comment on the total volume and value of exports due to the fact that ABS data reports the sum volume and value of exports of domestic farmed porkmeat and game pigmeat exports.

The industry is being actively encouraged by the Federal Government to rapidly and substantially increase its presence in export markets. The QPPO regards the unavailability of official data that would allow the government and industry to monitor export volumes and values of domestic farmed porkmeat as an indictment of the manner in which the federal government funds and provides government services to implement, monitor and report on its own policy.

ii) Changes in inventories

To assist the industry achieve an overall picture of the monthly stock of porkmeat available for consumption in Australia, the QPPO previously consolidated data reported by the ABS and the AMLC into an analysis of production, and stocks in freezer storages in each state. This information was used by producers in their forward production planning.

In 1996 the QPPO requested advice from the Australian Meat and Livestock Corporation (AMLC) on certain issues relevant to the data collection of monthly frozen meat stocks. Subsequent to the AMLC response the QPPO discontinued disseminating frozen porkmeat stocks data due to the lack of accuracy and completeness of data provided to the AMLC from various sources in Australia.

The QPPO notes the ABS uses the data provided by the AMLC in determining the apparent consumption of foodstuffs (ABS Catalogue 4306.0).

Step 4: *Are imports causing serious injury?*

Over many years the Australian consumer has through historical, cultural, and lifestyle factors installed the leg of pork and leg ham as their preferred porkmeat and porkmeat product. This preference has been the driving force in determining the pricing structure for the industry and has resulted in the leg being of significant value. This has been reflected by the practice of industry freezing and storing large quantities of legs during the year for the Christmas/New Year period, historically the period of highest demand and value.

As indicated previously this dependence on the domestic industry has been bypassed through the availability in a relatively short delivery time, of supplies of frozen boned legs of pork for manufacturing into ham. This has resulted in premium prices not being paid to producers in August to December to offset lower returns made in the previous period of each year.

Over recent times statistical data is becoming available to industry that gives a more concise destination of slaughter pigs (fresh meat trade or manufacturing) within the industry. Indications are that the break up of domestic production is significantly closer to 30 % fresh meat trade and 70% to manufacturing than was previously estimated at 40% and 60% respectively.

Table 11

Retailers (Butchers & Supermarkets) Purchases of Fresh Pork

Source: PigStats96 & 97

This brief example supports recent ABS information (D Barrett pers July 1998) that slaughter statistics by destination collected by the ABS over the previous twelve months indicate approximately 70% of all pig slaughterings are for manufacturing purposes.

The volume displacement effect of imported Canadian porklegs can be readily estimated. An estimation of this impact in 1997 is given below. Other imports not accounted for in this estimation include Canadian porkmeat imported under tariff 0203.19.00.9, NZ porkmeat and manufactured products from NZ, Europe, the USA and other sources.

The QPPO has identified a discrepancy in the aggregate volume of imported Canadian porkmeat and the aggregate volume of Canadian porkmeat imported under Tariff 0203.29.00.12 (Table 8 page 9 and Table 1 page 3 of this Submission) as recorded by the ABS.

The QPPO is not aware of a protocol that permits the import from Canada of porkmeat into Australia outside of tariff heading 0203.29.00.12.

For the calendar year 1997 imports from Canada under tariff O203.29.00.12 totalled 9 074.870 tonnes. For the purpose of this exercise it is assumed these imports are primarily skin-off denuded boneless pork legs.

To convert this product to bone-in leg equivalent it is assumed a 55% yield was achieved at boning, therefore bone-in leg equivalent:

0.55 of 9 075 = 16 500 Tonnes Carcass Equivalent (TCE) (bone -in leg)

In the same period Australia produced 325 914 Tonnes Carcass Weight (TCW) of porkmeat equivalent.

It is estimated that manufacturing accounts for 65% to 70% of the total domestic production. An estimate of carcass equivalent entering this sector is 67.5% of domestic production:

67.5% of 325 914 TCW = 219 992 TCW

Assuming one-third of carcass weight is leg, the total carcass equivalent of legs produced in Australia for the processing sector.

33.33% of 219 992 TCW = 73 323 TCW

Volume of Canadian imported legs as a percentage of Australian leg production:

16 500 TCE of 73 323 TCW = 22.5%

The QPPO believes the value displacement effect has been rigorously exposed in work by the University of Queensland report on the impact of trade liberalisation and increasing imports on Australian pig prices.

Step 5: *What safeguard measures would remedy serious injury?*

The QPPO notes advice by the Productivity Commission (Step 6: Views of other interested parties) in that, if Australia were to impose safeguard measures against imports of frozen pigmeat, the WTO requires that compensation- in the form of equivalent concessions on other imports be offered to exporting countries. If an agreement is not reached, the exporting country may take retaliatory action if safeguard measures are imposed when imports have not increased in absolute terms, or after safeguard measures have been in place three years.

The QPPO recommends that any safeguard measures introduced must be imposed for an absolute minimum of three (3) years.

Under current protocols imports of porkmeat destined for manufacturing purposes in Australia can only be exported from Canada, Denmark and from the South Island of New Zealand.

The QPPO notes that quantitative restrictions may only limit imports to a level consistent with their average level over the past three years, and if a tariff is imposed it must be imposed on imports from all sources except New Zealand.

a) ***Quantitative Restrictions***

A perusal of ABS import data covering the last three completed financial years indicates porkmeat has been imported from Canada alone over this period. These imports are listed below.

Table 12

**Volume Canadian Imports 0203.29.0012
as a Percentage of Volume Total Imports All Sources**

Source: ABS

The QPPO notes the Application of Safeguard Measures (paragraph 15 of the Gazette) where if a quantitative restriction is used, such a measure shall not reduce the quantity of imports below the level of a recent period which shall be the average of imports in the last three representative years for which statistics are available, unless clearer justification is given that a different level is necessary to prevent or remedy serious injury.

A perusal of Table 1 (page 3 of this Submission) indicates differences between financial and calendar year volume and value totals. Therefore the selection of 'the last three representative years for which statistics are available' becomes of importance in determining a quantitative restriction if such a restriction is to be introduced.

Table 13

**Comparison of Financial and Calendar Year
Volume and Value Canadian Imports 0203.29.0012**

Source: ABS

The QPPO notes that of the total imports of Canadian porkmeat recorded under tariff 0203.29.00.12, 63.5% in volume and 64.9% in value have occurred over the financial period 1995/96 1997/98, and 67.6% and 68.5% respectively for years 1995 to 1997.

Based on an analysis of this data, the QPPO recommends the three representative years be the calendar years 1994 to 1996 inclusive as the base for determining the level of quantitative restriction.

The QPPO recommends that a tariff quota safeguard measure (to be finally determined in consultation with the industry) be implemented against Canadian imports for an initial three (3) year period and a factor introduced whereby the tariff quota is reduced annually or six monthly, and that an appropriate quantitative restriction safeguard measure for the industry be:

- a reducing three year tariff quota of 3 850 000kgs of Canadian porkmeat imported under Australian Customs Tariff 0203.29.00.12

Table 1 (page 3 of this Submission) sets out the actual volumes and values of porkmeat imported since 1990 from Canada under this tariff heading.

b) *Tariff*

Over recent years North American pig production has been steadily rising to cater for a projected increased demand for porkmeat in Asia. However the financial downturn in the Asian region has resulted in significant export quantities not being sold. These export stocks have remained in the respect domestic production systems to the detriment of domestic US and Canadian pig prices.

If an out of quota tariff is considered as an appropriate safeguard measure, the effect of the projected long term decline in prices paid in the North American market must also be taken into account based on harm attributed to the price of previous imports.

Table 14

**Value Canadian Imports 0203.29.00.12
as a Percentage of Value Total Imports All Sources**

Source: ABS

The availability of significantly increased volumes of imported product has resulted in a situation where prices paid to pork producers for their pigs in 1997 and 1998 were similar to or lower than nominal values of those paid in 1990.

The QPPO believes that the volume and value of imports have caused and have the potential to maintain or increase the level of severe injury to the industry unless a significant and immediate change in government policy is forthcoming.

The QPPO submits that it is preferable policy to produce a quality domestic product with all associated benefits (tangible or intangible) to the nation's economy rather than cause the demise of an industry through the import (volume and value) of a product that currently is and should continue to be produced domestically.

The QPPO recommends an appropriate out of quota tariff safeguard measure for the industry as:

- a three year out of quota tariff of A\$2/kg on Canadian porkmeat imported under Australian Customs Tariff 0203.29.00.12

Part 2: Inquiry into Factors Affecting Profitability and Competitiveness

The second part of the Inquiry involves identifying factors affecting profitability and competitiveness of both the pig farming and pigmeat processing industries, and assessment of the relative importance of each factor. In particular to identify impediments to improved competitiveness and industry restructuring.

a) *Structural Change - Pork Producers*

The pork producing sector of the industry has undergone significant structural change in the number and size of operations over the last 40- 50 years. The QPPO believes consequential gains in productivity that have been achieved indicate the Australian pork producer is competitive productionwise against foreign pork producers.

b) *Structural Change - Processors*

The QPPO believes there remain significant opportunities within the processing and/or manufacturing sectors of the industry for structural change that would provide higher returns to producers through increased efficiencies.

Some of these efficiencies are:

- development of 'critical mass' export standard pig specific abattoirs and manufacturing plants; and
- siting of these abattoirs and manufacturing plants in centres of pork production.

c) *Cost of Production*

Cost of production has in general terms remained relatively stable although feed costs have risen from 78 cents per kg live weight in 1991/92 to 95 cents in 1996/97. However over the period these costs have remained static at 56 to 56.5% of total cost of production.

d) *Consumer Preference*

As indicated previously (Part 1 Table 10 page 10 of this Submission) per capita consumption of porkmeat in Australia has remained relatively stable over the period 1989 to 1997.

e) *Profitability - Pork Producers*

The QPPO maintains there is an undeniable linkage between the volume and value of imported porkmeat and prices paid to pork producers that has upset the equilibrium that existed prior to 1990. Under normal circumstances Australia's pork producers profitability is determined by cost of production and price paid for product by processors or at auction.

The price paid to pork producers will continue to be dictated as a direct result of imports of product offered at a price less than that of similar domestic product. Whilst this may be regarded as a 'commercial reality', the ongoing effect on the pork industry will undoubtedly be similar to that experienced by the industry over the period 1996/98.

The question this poses is- can the Australian industry afford a repeat of this recent debacle where its long term survival was and remains severely tested?