



SUBMISSION TO

PRODUCTIVITY COMMISSION

THE AUSTRALIAN PIG INDUSTRY

19 JANUARY 2005

COMMENTS ON DRAFT FINDINGS OF PRODUCTIVITY COMMISSION DRAFT REPORT, DECEMBER 2004

Introduction

The industry still faces many of the issues which initially prompted the setting up of the Productivity Commission. In addition the US pork industry has commenced importing, with 379 metric tons imported in November alone. Our second Submission focuses on the Draft Findings which in the most part pertain to the effects of imports and the assistance received by the importing countries on the profitability and sustainability of the Australian industry.

Draft Finding 3.2

The competitiveness of Australian pig producers on the domestic market and some international markets declined between mid-2002 and the end of 2003, in part due to movements in exogenous factors such as exchange rates and feed prices. Both exchange rate and feed price movements during 2004 boosted the short term competitiveness of Australian pig producers on some international and domestic markets, enabling some recovery of profitability. Fluctuations in competitiveness are likely to continue.

While both feed price and exchange rate movements have affected competitiveness /profitability, the significant increase in volume of imported products and also the timing of their arrival are just as, if not more, significant factors.

Our Submission (Fig. 3) shows that even at normalised feed prices, QAF has recorded acceptable returns in only 3 out of the last 7 years, which we attribute largely to the effects of imports on pigmeat price. Data presented in APL's first Submission to the Commission shows that over this period Canadian imports share of leg production has risen from 19% to 68%. Danish middle imports over the same time have gone from providing a negligible proportion to 56% of Australian production of middles for manufacturing bacon. These figures are significantly larger than the 33 percent values recorded in the Productivity Commission Draft report (pg xix). QAF's initial Submission demonstrates how the level and timing of imports have adversely affected the price received for domestic product.

Draft Finding 3.3

Levels of assistance to the pigmeat industry in Australia and the United States are low. More assistance is provided to pigmeat producers in Canada and substantially more assistance is provided in the European Union. Methods of providing assistance to agricultural industries in many overseas countries are changing, often decoupling assistance from product levels. This may change the impacts of assistance on world pigmeat prices.

Although the forms of assistance may be changing in Canada and Denmark, the fact is that significant levels of assistance exist and are likely to exist in the medium term. Our submission highlights the effects of current Danish support schemes. If the price of Danish middles were to rise by 25%, i.e. to take account of the subsidy, our previous Submission shows that this would increase the average carcass price in Australia by \$0.25/kg.

Canadian assistance, although lower in comparison, is still significant, as evidenced by the recent US industry action. The Canadian Agricultural Income Stabilisation Program gives

some certainty to producers, which allows them to invest in technology, thus improving their competitiveness; certainly a luxury that Australian producers currently do not have.

Secondly it can, in our opinion, encourage further expansion of production, even in times when market signals suggest the opposite course of action.

Draft Finding 3.4

Improvements in elements of competitiveness internal to a pigmeat business are important to maintain long run competitiveness with foreign competitors. In the short run, however, these internal factors are unlikely to offset the impact of factors such as large unexpected movements in exchange rates and feed grain prices.

This draft highlights the dilemma facing the industry, i.e. timing. The industry has a plan which will improve its competitiveness over the medium term. However, the majority of strategies, eg the increased investment in R & D via the recent CRC announcement, requires time to bear fruit. The industry needs a period of stability to take advantage of these initiatives. The losses over the last two years especially, have reduced the capital reserves of producers which, in the past, have allowed them to weather economic shocks such as drought.

A key factor in achieving this stability is having some certainty of supply in the market, which is not happening at the moment with the fluctuating level of imports entering the country, as demonstrated in our previous Submission.

Draft Finding 5.1

There is an ongoing role for the Australian Government in international negotiations to seek reductions in overseas trade barriers faced by Australian pigmeat exports.

The finding points out another of the inequities of the current situation which the industry finds itself in. While the Danes can take advantage of marginal costings of export cuts to improve overall return, Australian producers are effectively shut out of the markets.

Again it is the issue of timing, while trade barriers will continue to be removed, the question is whether the industry can remain sustainable to take advantage of this removal.

Draft Finding 5.2

Some (but not all) forms of assistance to overseas grain and pigmeat businesses can lead to lower world and thus Australian pigmeat prices. While adversely affecting pig producers and primary processors in Australia, they benefit Australian pigmeat consumers, retailers and manufacturers.

While all forms of assistance may not lead to lower world prices, they all eventually restrict the potential for higher prices, which reflect the true cost of production. In the majority of years the Danes have a higher farm cost of production as shown in our previous submission, however with their current assistance packages, they still remain profitable at product prices, of which Australian producers are losing money.

The second point in this finding also deserves comment. We believe it is a dangerous precedent to justify unfair trading practices of overseas countries by saying consumers will benefit, even if this behaviour has adverse effects on Australian farmers and by implication the rural and regional communities that depend on them.

Draft Finding 6.3

While new restrictions on pigmeat imports into Australia may provide short term benefits to pig producers, they would adversely affect Australian pigmeat consumers, retailers and manufacturers. They would also discourage or delay ongoing restructuring and fail to target those in greatest need of assistance.

QAF disagrees with this finding. As argued previously in the submission, the lower prices that the Australian consumers are currently enjoying for processed product are to a large extent artificial and short term, achieved via overseas assistance schemes. We believe in the longer term as the commission itself argues, these schemes will disappear, and by definition prices would then potentially rise.

Secondly, we disagree that import restrictions will delay industry's efforts to improve competitiveness, in fact the opposite scenario can be argued. The industry realises that any import restrictions would only be short term under WTO regulation. However, if the industry can be guaranteed some stability over a three to five year period, this will allow it time to move ahead with its restructure plan. Individual producers, who believe they can be competitive in an deregulated market, can further invest in technology that will improve their competitiveness. For those producers who are less certain, they have time to exit the industry, while not facing the risk of further eroding their asset base and also have a better chance of realising the value of their existing assets. Additionally it will provide time for the government to continue lobbying for freeing up of trade access and removal of subsidies.

Conclusion

The dramatic increase in exports over the last seven years have undeniably altered the landscape that Australian pig farms operate in. QAF believes that Australian pig farming has a bright future if given time to adjust to the new trading circumstances. We therefore strongly recommend that the Commission in its final findings recommends a new safeguard inquiry take place.