

SUPPLEMENTARY SUBMISSION
BY
AUSTRALIAN MEAT INDUSTRY COUNCIL

TO

**PRODUCTIVITY COMMISSION INQUIRY INTO
THE PIG MEAT INDUSTRY**

The Australian Meat Industry Council in principle agrees with, and supports, the conclusions drawn by the Productivity Commission in the Australian Pigmeat Industry, Draft Report.

The following information is provided in response to the invitation by the Productivity Commission for comments on the draft report:

Product Differentiation (p 34)

Pigs for slaughter are purchased, generally, against a "grid" which allows for weight and fat depth thereby rewarding higher graded pigs and penalising lower graded pigs. Carcasses for fresh meat retail markets are lower in weight and command a higher price per kilogram than carcasses for manufacture into smallgoods.

Several commercial arrangements have been attempted which meet the user requirements with the most appropriate carcasses. These usually specify carcass size and fat depth.

Profitability of the Processor Sector (p 36)

The Commission has correctly identified that information is not readily available on the profitability of the sectors. Generally the price charged by abattoirs and smallgoods manufacturers on finished product fluctuates with the price paid to pig producers for raw material. Time lags take place in the wholesale price of finished product and these are usually longer when prices are rising than when the prices are falling.

It could be assumed that there is no significant advantage to processors from low pig prices to growers as processors and retailers operate on margins, not absolute prices.

The smallgoods industry is characterised by low margins with high price volatility related to the fluctuation in pig prices. Profits are generally low and losses are not uncommon.

Impact of Increased Imports (p 38)

For the reasons stated above, smallgoods processors generally derive little profit benefit from the import of pigmeat as any reduced cost is passed on to retailers and ultimately consumers. The ever changing retail price of ham and bacon products, and the level of discounts provided on promotions, is evidence of the level of the consumer benefit.

Processors who do not import pigmeat when the cost of those imports is lower than Australian pigmeat can be at a disadvantage if wholesale prices to retailers generally reduce due to that lower input price.

Processing Costs (p 61)

The Hassall and Associates 1994 report was considered to be a true reflection of the industry at that time. While progress has been made on many cost factors, the processor industry considers that it remains disadvantaged on costs, particularly Government charges, compared with overseas companies.

The pork abattoir industry has changed considerably since 1994 with a number of smaller operations closed and new and expanded operations taking their place. The conclusions by ProAnd Associates in 1998 are probably correct.

Market Development Programs (p 80)

The smallgoods sector and independent butchers are the majority users of Australian produced pork. The opportunity to expand the use of Australian pork therefore rests with these users. Both sectors remain critical of the lack of market development funding directed to expand their markets.

Pig Size (p 111)

The Commission has correctly identified that consumers determine the preferred size of pork products. The fresh meat trade through independent butchers is smaller pigs (for which a premium is paid) and the smallgoods sector is larger pigs ("baconers"). Any move to significantly increase the weight of pigs requires consideration of factors such as fat depth and the consumer market to which the end product is directed (eg Christmas Bone In Legs).

Representatives of AMIC will be happy to further elaborate on the comments included above during the public hearing of the Commission to be held on 2 February 2005.

Kevin Cottrill
25 January 2005