

# Australian Pigmeat Industry Productivity Commission

## Response to Draft Report

By B E Campbell

### Draft Finding 2.1

We agree with the finding that both the pig production and processing sectors are experiencing significant structural change. As part of the processing sector our plant has changed significantly over the past 5 years both in size and the extent of technology. We agree that this structural change is advantageous both for the industry and Australia but point out that making these changes is costly and extremely risky and can be beyond the capabilities of many family owned businesses. In our case it is unlikely we would have had the confidence to invest in our modern plant was it not for the Pigmeat Processing Grant Scheme of 1999.

Our 10 year plan had incorporated expansion into an abattoir and associated processing facility. These plans have been shelved. Our external accountants have advised that such a move would be most unwise in view of the current trends.

### Draft Finding 3.1

We are concerned, however, that the period the Commission reviewed to ascertain profitability for the industry was limited and that their conclusion that profitability is again rising is only an assumption and not in agreement with the view expressed by the growers who are supplying us.

The increase in production and profitability during 2000 – 2001 can be directly linked to the outbreaks of disease overseas. As the Commission points out this is part of our competitive advantage but the severity of the outbreaks which occurred then are not likely to be repeated. If we removed this spike from the trend (see Figure 1) we would see at best an industry stagnating in its growth or at worst with production at levels below those of

the 1990's. This may seem only a minor point but when viewing the state of the industry and making recommendations which may greatly affect its future viability, an incorrect assumption on which direction profitability is heading can have enormous consequences. We purchase pigs from both large specialized growers and smaller operators. It is of great concern to us that the large specialized businesses are experiencing great difficulty in maintaining profitability.

### Draft finding 3.1

We agree with the findings that the share of imported pigmeat used by secondary processors increased between mid 2002 and the end of 2003. In fact, if we view the figures on the volume of imports (Table B.10) the growth in imports from 2002-2003 to 2003 -2004 was the **largest** increase in any one year, increasing from 47435 tonnes to 60380 tonnes. In our view the Commission is remiss in not commenting on the huge extent of the current growth in imports and the subsequent impact on profitability and sustainability of the industry.

It is important to also note that the proportion of middles used by the Australian secondary sector supplied by Denmark is now around 33%. This is alarming as it would appear that Denmark is adopting a pricing policy which is aimed at capturing the market. The prices charged by Danish producers fluctuate in accordance with Australian prices i e they are **always within 2 – 3%** of the price being charged by primary producers such as ourselves in Australia. This would indicate the price charged is not based on the cost of production in Denmark but with the intention to gain market share.

As a primary processor in direct competition with Danish exporters, we do not understand how a producer with costs 10% higher than ours can compete in our market when they also have an additional 10% in transport cost to the Australian market. The apparent answer would be either a case of dumping product here or levels of government support overseas much higher than those received here. We advocate urgent investigation into this situation by the government

While the growing imports of pigmeat may mean lower prices for the consumers **now**, we would like to point out that it is unlikely to be long term if the Australian Pigmeat Industry declines to such an extent that Denmark

gains market control. It would be unlikely for prices not to rise. Certainly it would appear now that prices charged by Denmark in other countries are higher than the prices charged in Australia.

### Draft Finding 3.3.

As Canada does give considerable assistance to pigmeat producers we are disadvantaged considerably when competing with Canadian imports. And we note Canadian imports are presently 43% of total imports.

We also wish to note that levels of assistance given to producers in other countries are difficult to determine. In the United States, for example, large State grants are often given to processors to encourage establishment in that State. No measures of these grants are included as they are difficult to assess. However, there is no equivalent assistance in Australia putting us at a disadvantage.

The Commission in Table 3.1 refers to OECD estimates of producer support for pigmeat in selected countries, 2003. This shows very high levels of support in overseas countries compared to Australia. The assistance to the Danish pigmeat industry is estimated to be 20.5% compared to Australia's 3.59%

Yet the Commission's finding makes no mention of this large level of support given to Denmark even though in the body of their report they state **“such incentives within the European Union are likely to depress world prices for pigmeat and have a negative impact on Australian pigmeat producers. Further, market support measures make it more difficult to export Australian pigmeat to the European Union”**

We urge the Commission to revise their finding to reflect the huge hurdle the Australian pigmeat producers face in competing with product supported to this extent. Furthermore we also urge the government to take action to address the situation.

### Draft Finding 3.5.

We certainly agree with this finding pointing out that while increased specialization and capital intensity can achieve higher returns through economies of scale it also leads to greater vulnerability to unanticipated fluctuations in the prices of outputs and inputs.

Given that we can not control fluctuations in the price of outputs due to currency fluctuations etc. we would advocate attention be given to addressing the problem of input costs. Feed (60% of total input costs) is prone to fluctuations and even at best is a higher cost to Australian producers than to producers overseas.

We would advocate government assistance in addressing this issue is warranted. The single – desk marketing arrangement is a major impediment to maintaining the competitiveness of our pigmeat industry. If the pigmeat is to be competitive surely it is not unreasonable to expect better treatment in this regard. The Commission reports that at times the domestic price for feed wheat has risen above the export price. Need I say more!

Draft finding 5.2

We were extremely disappointed in this finding as it did not adequately reflect the discussion in the body of the report.

The commission agrees that some forms of assistance to overseas grain and pigmeat businesses can lead to lower world and thus Australian pigmeat prices. It justifies this by pointing out that Australian pigmeat consumers will benefit through lower prices. We would point out that this could be a short term effect only if the pigmeat industry declines to such an extent that we are reliant on imports.

More significantly, the Commission in its **finding ignores the non financial adjustment costs for some people (impacts on emotional and psychological health), or significant adjustment problems in some regions.** We maintain that a broader view be taken to include these impacts. Consumers may in fact face higher taxation as the Australian government supports people forced out of rural industries in this manner. **The overall view of the costs and benefits of overseas subsidies must be taken not the limited view of the short term impact on prices to consumers.**

## Conclusion

B E Campbell supports the broad economic objective to increase competition and encourage free trade. We agree that ultimately this leads to a higher economic growth and higher income per capita. Structural change is involved in this process and we agree this is necessary. However, we also point out that other overseas countries are not always as outward looking in their approach to encouraging free trade.

This approach can have serious irreversible consequences. Speaking as a processor I can reflect on the state of our business. We are faced with great uncertainty. If the present trend continues the core part of our business .i.e. supplying secondary processors will be non existent. We have invested considerable capital into our plant which is highly specialized. We can not jump in and out of processing pork. If profitability continues to decline or our supply of pigmeat diminishes due to growers exiting the industry, we will close down forever.

We advise caution. While supporting the broad objective we should be aware of the factors which prevent our industry from growing on the world market and address those wherever possible. We do not advocate supporting an inefficient industry but advocate assistance to enable our industry to continue the process of restructuring. In particular we would encourage attention be given in the following areas.

Firstly urgent attention to the problems inherent in the monopoly statutory marketing powers and the impact on feed costs. The major input cost for Pigmeat growers. It seems strange to me that the government can be encouraging the Pigmeat industry to be competitive while on the other hand supporting a monopoly!

Secondly, we urge the government to investigate the apparent dumping of product on the Australian market. This must be done **soon** or it may be too late. It would be a tragedy to see an industry which could compete on the world market sacrificed unnecessarily

Finally we urge assistance be given to the industry in its efforts to restructure. As the report indicates, considerable restructure has already taken place. However, more time is needed to complete the process and with

the volume of imports increasing at such an enormous rate, some form of assistance is crucial.