



**Australian Government  
Australian Bureau of Agricultural  
and Resource Economics**

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Productivity Commission  
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Dear Neil

In your letter dated 27 January, you raised a number of questions in relation to your inquiry on the Australian pigmeat industry. These questions focused on the Danish and EU pigmeat industries. In addition to the letter, follow up communication from your staff indicated that any assistance that could be provided on the relative cost of feed grains in Denmark and other EU countries would be useful.

This letter provides a broad response to your request, with the attached documents providing underlying data and source material.

The majority of questions raised focused on the apparent inconsistency between the OECD estimates of support provided to EU pigmeat producers and the fact that Denmark (and *the* Netherlands) have been exporting pigmeat products with no apparent export subsidies. A reason for seeking clarification from ABARE is that ABARE included a reference to EU support in our publication *Economic assessment of the effects of pig meat imports on the Australian industry*.

Although we do not have definitive answers to your questions, after conferring with the OECD Secretariat we can confirm the following information about the underlying data used to calculate Producer Support Estimates (PSE) by the OECD:

- That the commodity specific PSE for pigmeat in the • European Union predominantly (about 90 per cent) comprises a category termed market price support:
  - o For a country that is a net exporter, market price support is calculated by comparing unit export values with farmgate/domestic prices;
    - For EU pigmeat, exports to Japan are excluded from the calculation of unit export values because these exports are deemed to be of a 'high quality';
    - The exclusion of exports to Japan reduces the export price used in the comparison;
    - The OECD adjusts the unit export value by subtracting estimates of processing costs in France-in-order to make it comparable with the domestic price;
- According to the OECD calculations, the domestic price exceeds the modified unit export value, thereby providing a positive estimate of market price support to pigmeat producers;
- This estimated market price support has been in the range of 22-24 per cent of the value of production in recent years (2000 to 2002);

- The main other support present in the estimated EU pigmeat PSE is from *direct* government payments at the sub national level (ie by individual EU member governments) in the form of expenditure for on-farm services, interest subsidies and environmental programs;
  - While there are payments to pigmeat producers by other EU member governments, the OECD is not aware of any specific assistance or payments from the Danish government to Danish pig farmers.

You raised a series of questions designed to test the economic veracity of an estimate of market price support for an exported product when there are no apparent export subsidies and that tariff quotas for the given product have not been filled.

The presence of market access barriers, such as tariff quotas, can only provide market price support for a net exporting country if there are explicit or implicit export subsidies provided or if there are restrictions of trade within the country.

- The European Union does not require the export of some pigmeat products and does not provide a deficiency payment to pigmeat producers or processors - as such, no implicit export subsidy appears to exist for EU pigmeat.
- In recent years, the European Union has provided export subsidies for pigmeat products;
  - The volume of EU subsidised exports were 58 per cent, 8 per cent and 7 per cent of total exports for 1999-00, 2000-01 and 2001-02 respectively (the last three years for which notifications are available). The value of subsidised exports for the same period were less than one per cent, 1.4 per cent and 9 per cent of the total value of exports.
  - Over the three years, the volume of subsidised exports averaged 24 per cent of total EU exports while their value averaged 4 per cent of total value of EU exports.
  - For 1999-2000, The European Union has utilised roll over provisions of export subsidies to avoid breaching its volume and value commitments for pigmeat export subsidies.
  - The current volume and value limit on EU pigmeat subsidised exports are 443.5 kt and 191.3 million Euros.
  - The products for which export subsidies were provided do not include the products exported to Australia;
  - A report by the Danish Bacon and Meat Council indicates that EU export refunds have been provided on highly processed pigmeat products (sausages and cooked hams) rather than uncooked cuts and carcasses.
- While there are controls on the movement of live animals within the European Union, there are no controls on the movement of pigmeat products that would represent an artificial barrier to intra-EU trade;
  - The European Union has standardised labelling and health regulations to ensure the free movement of goods throughout the EU territory;
  - Administrative and transport costs however make pigmeat prices in some areas of the European Union higher than prices in the export dominated areas.

As evidence to disprove a substantial price difference across the European Union, you have noted that the EU tariff quota for pigmeat has a very low rate of fill.

- However, work by ABARE (Podbury and Roberts, 1999, *WTO Agricultural Negotiations: Important market access issues*) indicates that tariff quota underfill may occur for many

reasons and that the presence of persistent underfill of tariff quotas does not of itself indicate a lack of economic demand for imports at the in-quota tariff rate, For example:

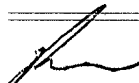
- o Some of the administrative arrangements that can lead to underfill of quotas include allocation of the quota into non commercial quantities, allocation of the quota to exporting countries which have very high cost industries, restriction of the quota to a subset of the relevant tariff lines that has a low level of commercial activity and limitations on the use of goods imported within the tariff quota.
- Although the EU pigmeat tariff quotas have no end use requirements and are not allocated to specific supplying countries, these quotas are small in volume and are divided into a subset of the pigmeat tariff lines.
  - o The European Union has six pigmeat quotas with a total volume of about 123,000 tonnes. Most of these quotas are small (3,000 to 6,000 tonnes) and the returns from exporting to the European Union under these quotas may not justify the compliance costs in meeting the EU requirements for imported pigmeat to the European Union, This could be one reason for the quotas being persistently underfilled.

ABARE also has data indicating that, in some years and for some products, average prices received for Danish pigmeat sales in the European Union are lower than those obtained for exports even after excluding the high valued exports to Japan. For example average prices received by Danish producers for bacon in the European Union were lower than average export unit values in 2001, 2002 and 2003. Similarly average unit prices received from sales in the European Union of pig carcasses (fresh or frozen) were lower than corresponding export unit values in 2002 and 2003. This raises doubts about the appropriateness of using the OECD MPS and PSE estimate for EU pigmeat producers to ascertain the level of support for Danish pigmeat producers. In an attempt to address this issue, we contacted the OECD secretariat to enquire about the availability of PSE estimates for specific EU member countries. While they confirmed that efforts to produce such estimates have occurred in the European Commission and in EU member states, they advised that the results of those efforts are not publicly available.

In addition to the questions raised in your letter, your staff have also indicated the need for information on the comparative cost of grain in the European Union. Based on published figures by the European Commission, there is evidence that the price of barley is higher in Denmark than in most EU countries, We have included the source and original data underlying this claim in the attachment.

The information provided indicates that there are no apparent production subsidies to Danish pigmeat producers or export subsidies on products exported to Australia, In addition, returns to Danish producers are closely linked to prices obtained on international markets. I hope this information is useful to your inquiry. Please contact myself or my staff if you have further queries.

Yours sincerely



**BRIAN FISHER**  
*Executive Director*

*16 February 2005*