

February 18, 2005
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Productivity Commission, Australia
Mr. Robert Douglas, senior economist

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Dear Mr. Robert Douglas

Thank you very much for your e-mail of February 7, 2005.

We are very sorry for the delay in answering your questions.

You start by mentioning that we by fax and e-mail of January 28, 2005 have improved your understanding of EU and Danish market support measures for the pig meat production. In this connection we hope that we have clarified that there never has been domestic Danish support measures and very few EU support measures for many years for this sector and in case of any EU support measures there have never been any support for the specific product - i.e. middles - which we export to Australia.

Now your questions:

Number 1

Firstly it should be mentioned that the farm gate prices, which each EU-member country reports to the EU-Commission each week, are not comparable between the countries even if this perhaps was the intention when the calculation of an EU-average price (pigs over 50 kg with a lean meat content between 50% and 60%) was established. Different local preferences in slaughter weight and different methods of measuring the lean meat content means different prices. The EU-Commission has acknowledged this fact and is only using the weighted average price as an indicator of the market situation and to see in which direction the market moves.

Concerning your specific question as to how Danish prices compare with the EU-average the situation is the following:

When marketing the Danish pork production on 130 different markets world wide the average price is significantly higher than the EU-average. This is due to our ability to access practically all markets in the world and to supply high quality uniform tailor made cuts in big quantities and in accordance with our clients specifications. In that way

we are able at any time to match each specific item of the pig with the market segment that world wide is paying the best price.

The difference between the average price for Danish pork and the EU average is also influenced by the fact that Denmark is exporting to countries outside the Union, and here we have been hit by the low rate of exchange for especially the US dollar as a lot of this export is invoiced in US dollars. Also on our most important market outside the EU - Japan - we have been hit by competition from low-rate-dollar US exporters.

Due to the currency situation the difference between the Danish price and the EU-average has been reduced but the Danish average is still higher than the EU-level.

Unfortunately our costs for producing at a high standard are also higher than the EU-average. That goes in particular for the labor costs. The salaries for slaughterhouse workers in Denmark are no doubt the highest in the world.

Due to this high cost situation combined with the currency situation the farm gate price for pigs is for the time being lower in Denmark than the EU-average although as mentioned it can be difficult to establish the exact difference. Measured over a longer period the Danish farm gate price is however at least matching the EU-average.

Number 2

You are quite right in your last assumption. The bonus payment has nothing to do with quality but represents the members (the pig producers) share of the profit of the cooperative slaughterhouse company. Bonus is paid once a year after the results of the financial year has been established and published and this bonus varies from company to company depending on the size of its profits.

Number 3

You are correct about the better prices but it is impossible to compare these prices with domestic wholesale prices on the same product i.e. middles. Bacon is not really eaten in Denmark, as we have no preferences for it. Middles are therefore "designed" for and exported to "bacon eating" countries such as UK, Japan, Australia etc. Therefore in fact we have no wholesale price for this product in Denmark. If comparisons should be made it should be with the UK prices. In this connection it should also be mentioned that for climatic reasons consumption of bacon varies seasonally and therefore also "anti-cyclically" between UK and Australia and prices varies therefore accordingly.

Number 4

As you know the products we are selling on the Australian market are de-boned middles for further processing and it is our impression that the Australian meat processing industry is just as efficient as the Danish one. It is also our impression that the reason why the Australian meat processors are buying Danish middles is that they from Denmark can get more uniform products (in weight, size and exact specifications) and in bigger quantities from individual suppliers than they can from Australian suppliers. You get what you order and in the quantity you have ordered. It is our impression that this is a

problem for the Australian pig meat sector which is more fragmented and diversified (different cut weights and sizes which are not optimal for a processor) in its supplies of pork cuts.

The strength of the Danish pig meat sector has always been that we are very efficient in supplying our customers worldwide with tailor-made "semi processed" cuts for further processing.

Finally we must say that we are not able to give you an average cost of processing a pig as it depends on a lot of things. The only thing we can say is that - as mentioned above - costs are high in Denmark and therefore higher than in almost all the countries with which we are competing, but as also mentioned above, we have been able to create preferences for our products globally due to efficiency in supplying uniform, tailor-made cuts in bigger quantities. So the higher costs are counterbalanced by a better marketing price for the meat.

Once again thank you for contacting us and should you need any further clarifications please do not hesitate to contact us again.

Yours faithfully

Knud Buhl