

Email from Productivity Commission to Danske Slagterier

The Director of Secretariat
Danish Bacon and Meat Council
Danske Slagterier
Axeltorv 3
DK-1609 Copenhagen V

Dear Sir/Madame

The Productivity Commission (the Australian Government's principal review and advisory body on microeconomic policy and regulation) is currently undertaking an Inquiry into the Australian Pigmeat Industry (see <http://www.pc.gov.au/inquiry/pigmeat/index.html> . An issue of concern is that some Inquiry participants have come to believe imports of frozen pigmeat, in particular middles from Denmark, are highly subsidised and are affecting the competitiveness of the Australian industry. A number of participants have drawn my attention to the producers support estimates (PSE) calculated by the OECD which attribute comparatively high levels of support to EU pig producers. I note that another Australian government agency, ABARE (see <http://www.abare.gov.au/>), considered this issue in its report, Economic assessment of the effects of pigmeat imports on the Australian industry, (see <http://abareonlineshop.com/product.asp?prodid=12824>) observing that:

In 2002, the last year for which estimates are available, producers in Australia, Canada and the United States were only lightly assisted - receiving 4 per cent 7 per cent and 5 per cent respectively of their revenue from government programs (OECD 2003). These figures are in marked contrast with the situation in the European Union (of which Denmark is a member) where producers receive 24 per cent of their earnings from the government. However, I currently see little evidence to give credence to the view that Danish producers are heavily subsidised. The Productivity Commission investigated the PSE estimates in its recently released Draft Report (see <http://www.pc.gov.au/inquiry/pigmeat/draftreport/pigmeat.pdf>) and has been attempting to reconcile the OECD estimates for the EU with evidence of the characteristics of the Danish pigmeat industry. For example:

- * The OECD estimate is an average over 15 countries. The level of assistance provided by different national governments, will vary between countries.
- * There do not appear to be any individual government programs or budgetary outlays that point to large subsidies to Danish pig producers.
- * Assistance is provided to EU producers in two ways: (1) directly, and (2) by 'market support' mechanisms, such as tariff quotas, that are designed to increase prices within the EU compared to world prices.
- * Direct assistance contributes around 4 percentage points to the PSE for the EU. Danish producers mainly receive similar forms of

assistance to that provided to Australian producers, for example, R & D, extension, fuel rebates, promotion assistance, etc.

* The remaining percentage points of the PSE for the EU are attributed to 'Market support' assistance, yet we are unable to identify large government expenditures to account for the support and Eurostat statistics show that Denmark achieves higher prices exporting to non-EU countries than to other EU countries (over 30 per cent of Danish pigmeat is sold to non EU countries).

* If, prices in the EU were 20 per cent higher than world prices (as suggested by the PSE estimate), why would the Danish industry export such a high percentage of production?

* One answer may be export subsidies, but there are few export subsidies for pigmeat, and those that do occur are normally occasional, and measured in tens of millions of Euros in a market whose value of production is about 20 billion Euros. EU exports of pigmeat are about 1 000 000 tonnes, and Danish exports are about 600,000 tonnes. A 20 per cent export subsidy would equate to approximately 500 Euros per tonne, about 500 million Euros for the EU, or about 300 million Euro for Denmark. We cannot find any evidence of subsidies of this scale.

* In the absence of export subsidies, firms export because they can achieve higher prices overseas than on their domestic markets.

* If EU internal prices are at/below world prices for particular grades/cuts of pigmeat, it is very difficult to argue that the tariffs/quotas/ tariff quotas have significantly raised EU prices, especially when we know that most quotas are substantially under-filled. While the OECD does not calculate a PSE for the Danish pigmeat industry, it does argue that a net exporting country, with no policies specifically affecting the imports or exports of a given commodity 'corresponds to the case of zero Market Producer Support' (see OECD 2004, Methodology for the measurement of support and use in policy evaluation, p.14). I would be grateful of any views you or your staff might have on these observations regarding the support to the Danish pigmeat industry. Could you confirm the support arrangements for the industry and those available for the export of middles to non EU countries? Unfortunately the Pigmeat Inquiry being undertaken by the Productivity Commission has a very short timeframe to report within and so I would greatly appreciate a prompt reply to this query.

Productivity Commission