Pork Council Of Australia

Submission to the Productivity Commission

Pig and Pigmeat Industries: Safeguard Action Against Imports

October 1998

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I. EXECUTIVE OVERVIEW

A surge of imports of frozen pigmeat from Canada is causing and is threatening to cause a significant overall impairment in the position of the Australian pork industry.

The pigmeat producers find themselves in severe difficulty as the result of the unexpected surge in imports that has occurred since mid-1996 - damage has been incurred in the form of declining profits and negative cashflows, falling production, employment and other adverse impacts.

The pigmeat producers and the early stage processors are producers of boned uncooked product which competes with boned, uncooked pigmeat from Canada (overwhelmingly pork legs).

Canadian imports averaged 5 to 10 percent of the Australian market for boneless leg meat until the last two years when they surged to around 25 percent. The change is depressing prices in the pork market and causing significant overall impairment in the position of the majority of pork producers and early stage processors.

Australian pigmeat producers are therefore urging the Federal Government to provide temporary tariff and tariff-quota assistance under the Safeguards provisions of the World Trade Organisation.

The WTO Safeguards Agreement was designed to address precisely the type of circumstances in which Australian pigmeat producers find themselves. Adoption of temporary safeaguard measures is a normal feature of the GATT/WTO system. Since the inception of the GATT system, over 150 Safeguards actions have been notified.

This submission outlines the clear evidence regarding the effects of increased imports and the justification for Australia to utilise the safeguard provisions of the WTO to meet a legitimate need.

The Pork Council of Australia which represents producers and early stage processors of pork have requested the imposition of a Provisional Safeguards Measure which would provide immediate assistance that is warranted by, and proportionate to, the urgency of the situation facing the industry. A tariff of 100% is required. The Productivity Commission should recommend imposition of such a measure now.

A General Safeguard Measure is warranted to remedy the serious injury being caused and further threatened. This measure should gradually reduce over 4 years so as to provide a platform for future orderly structural adjustment in the production and processing of pigmeat. A quota of 5120 tonnes and an out of quota tariff of 50% is required.

Structural change has been significant in the industry and has been underway for a considerable period of time against the widely-held understanding and expectation that imports would continue at an average of 5% to 10 % of Australian production of leg meat, a level achieved following the opening of the Australian market in 1990.

The expectation of relatively low and manageable import penetration at around these levels, and attendant manageable pace of structural adjustment, must presumably have been the basis on which the Government, without consultation with the industry, bound tariffs on imported pigmeat at zero in the WTO Uruguay Round settlement in 1995.

However, the rapid and unanticipated surge in imports in the most recent years to an average of 25 percent of the leg meat market has fundamentally injured the industry and simultaneously undermined the foundations on which industry development and restructuring was proceeding. The damage caused by the surge in imports has been profound, as is clear from the results of the survey undertaken for the purposes of this inquiry, and has severely undermined confidence in the industry.

The Safeguards Measures required would give the industry the opportunity it needs to continue in an orderly manner the current substantial changes underway in the industry's structure, improve competitiveness against imports and enable the industry to continue building its export capability.

A continuation of the unrestricted import surge the industry has faced would undermine these efforts, and cause devastation not only to the industry but more broadly too.

The Australian pork industry is not seeking protection. The industry is seeking the proper and reasonable application of the safeguards provisions of the WTO. The industry is prepared to continue operating, and to compete vigorously, in the long term on the basis of the zero-bound tariffs imposed on it from 1995. (How many other Australian industries, one might wonder, would be prepared to give that undertaking?). However, the unforseen surge in imports to the levels of recent years and the clear expectation that imports will continue at least at similar levels has presented the industry with an unparalleled, unexpected and unfair crisis.

The industry is now requesting, in these exceptional circumstances, a breathing space fully consistent with the mechanisms of the WTO and Australia's right to exercise them, against an unforeseen surge in imports that is causing and threatening to cause devastation to the industry.

No departure from Australia's formal treaty obligations is entailed and the Australian pigmeat market will continue to remain open to international competition at even more generous levels than those envisaged when the market was initially opened in 1990 and tariffs were bound at zero in 1995.

The Productivity Commission should accordingly advise the Government to accede to the industry's request both for immediate tariff assistance and for a temporary tariff quota for 4 years in accordance with the Agreement.

II. INTRODUCTION

The Pork Council of Australia (Council) welcomes the opportunity to present a submission to the Productivity Commission into its Inquiry on whether action, in accordance with the World Trade Organisation (WTO) Agreement on Safeguards, is warranted against imports of certain frozen pigmeat. In addition to addressing the safeguards issue, Council will also present an additional Submission on the factors affecting the profitability and competitiveness of domestic pig farming in Australia.

The Council was formed in March 1992 to represent the interests of Australia's pig producers. Membership, whilst voluntary, is high at over 75% of national production. Membership may be held as an individual, corporation, or through associations which represent pig producers. Each type of membership is equal in terms of rights and obligations within the Council. Council is funded entirely by the members, and not via any statutory pig levies. Essentially, Council's mission is to strongly influence the direction, shape and success of the pork industry in Australia to the benefit of producers and thus the Australian community. Given the integrated nature of the industry, some members are, in addition to pig production, involved in slaughtering and processing.

Council's submission is based on the strong belief, backed up by conclusive evidence, that pigmeat imports have caused, and threaten to cause further serious injury to Australia's domestic pork industry.

In our argument for safeguard action against unrestrained imports the Council states at the outset that the industry is **not** seeking protection, but rather seeking temporary relief from the serious financial damage that a high and surging level of imports is causing to Australia's pig farmers.

The centrepiece of Council's argument for temporary relief is that surging imports, resulting in depressed prices are causing serious injury to producers, and if allowed to continue unrestrained, it further threatens serious injury. Hence a restraint on imports is necessary to restore prices and returns to sustainable levels, and this would provide the industry with the necessary breathing space to allow for continuing but manageable adjustment.

Council envisages a vibrant, prosperous, competitive and increasingly export oriented pork industry in Australia. Under current conditions, with depressed pig prices, declining cashflows, and producers exiting the industry, the chances for such a scenario being realised are bleak.

Pig production is an important component of Australia's agricultural economy. With a gross value of pig production of $693 million in 1997/98, it represented 2.5% of the gross value of Australian agriculture (Australian Commodities, ABARE, June Quarter 1998). While structural change is generating larger and larger farms over time, the majority of farms are medium sized, family owned and run operations. However, there are also a significant and growing number of large, vertically integrated operations.

Despite the fact that structural change has been occurring at a rapid rate, the industry has had to cope with unexpected import surges. This has led to depressed prices (often well below costs-of-production) and negative cashflows. With the threat of further surges, if allowed to remain unrestrained, imports have the potential to cause even further damage to Australian producers.

The implications of injury, and the further threat thereof, are profound. This has implications for the well being of the nation as a whole, since it impacts negatively on rural employment, value-added and production. Such injury also threatens exports (and hence overall economic growth) since if producers are forced out of the industry in increasing numbers, production and exports would be expected to decline, thereby taking away the recent gains made by the industry in developing export markets.

The fallout from the deterioration in the financial situation of the pig industry is manifested through increasing bankruptcies, damages to the wider social structures of the rural economy and ultimately increased expenditure by government through increased welfare payments.

Against this background, the purpose of this submission is to address the issues raised in the Productivity Commission's Issues paper by examining the impact unrestrained imports are having on:

- domestic pig prices
- producer profitability;
- domestic sales and market share;
- capacity utilisation;

- employment;
- exports;
- investment and productivity.

This submission includes the findings of a comprehensive survey of producers commissioned by the Council (some 200 producers out of 3337) demonstrating the extent of serious injury currently suffered by domestic producers, or are likely to suffer in the future.

III. APPLICATION OF WTO PROVISIONS

1. The WTO Safeguards provisions

It is commonly contended that proposals for imposition of safeguards under Article XIX of the GATT and the terms of the WTO Agreement on Safeguards are motivated by the desire to reinstate trade barriers against imports. This is true in a narrow sense. The Safeguards provisions are intended to provide a respite against imports. But it is not true in broader sense. The measures are intended as a safety valve in the event commitments to liberalisation create greater disruption to domestic producers than had been anticipated.

As Hoekman and Kostecki note, " The main rationale for the general safeguard clause is to allow some 'flexibility' with respect to tariff commitments, thereby promoting trade-liberalisation efforts."[1]

The drafters of the GATT realised that, in certain circumstances, which they did not foresee, commitments to open markets under the processes of the GATT might result in circumstances where an increase in imports might injure domestic producers. Article XIX allowed for reimposition of trade barriers if certain conditions were met. Clearly the philosophy was to give domestic industries time to adjust to the circumstances of greater competition.

The provision was never intended to allow permanent protection. Restoration of import barriers was permitted to the extent necessary and for such a time as was necessary to prevent or remedy the injury caused by the increased imports. Other Contracting Parties were entitled to seek compensation, and under certain circumstances to take retaliatory action.

[1] Hoekman B and Koesticki M, The Political Economy of the World Trading System.Oxford, 1995 p 167

The safeguards provisions have been regularly used as normal mechanisms for the multilateral trading system which is created by the provisions of GATT/WTO system. Since the inception of the GATT, over 150 notifications of safeguard actions have been made.(See GATT Analytical Index, 6th Edition 1994, page 500).

Nevertheless, many observed over the years that the operation of the provisions of Article XIX of the WTO was imperfect. The negotiation in the Uruguay Round of the Agreement on Safeguards was formal recognition of this. The aim was to ensure safety valve operated as intended. The preamble of the Safeguards Agreement recognised the "need to clarify and reinforce" the disciplines of GATT1994. The Preamble recognised "the importance of structural adjustment and the need to enhance rather than limit competition in international markets." In this respect it echoed the intent of Article XIX to support the process of multilateral trade liberalisation.

It is clear that the aim of the Agreement on Safeguards was to correct the imperfections in processes established by Article XIX. In Article 1, it establishes the rules for the application of safeguard measures provided for in Article XIX.

These rules are new. Also, some of the terms of Article XIX do not seem to be consistent with the provisions of the Agreement. This is discussed further in the Annex. As a result, words and phrases are subject to close scrutiny when consideration is given to how to interpret them.

It is natural to use literal interpretation of words to establish meanings. Care needs to be exercised with this method. Like many WTO agreements, the Agreement on Safeguards seeks to achieve a certain economic result. In most cases, provisions of WTO agreements serve to constrain adoption of measures which have a protective effect. This is not the case with the WTO safeguard provisions. Their aim is to provide breathing space from a level of competition from imports which was unforeseen to provide time to re-adjust to the more competitive environment created by the reduction of trade barriers. Specifically, the Agreement provides for the re-introduction of protection on a temporary basis and on specified terms.

In the case of the Article XIX and the Agreement on Safeguards, the extent to which they are successful in meeting their economic purpose will be measured by interpretation of their provisions in a way which permits protection to be introduced in the manner envisaged in the provisions. Where interpretation of provisions is necessary to decide whether or not safeguards should be applied, it is important that the economic intent of the agreement guides interpretation.

The case for temporary protection which has been made by Australia's pigmeat industry is a classical safeguards case.

2. The case for safeguards

An increase in imports of frozen pigmeat from Canada is causing and is threatening to cause a significant overall impairment in the position of pigmeat producers and to early stage pigmeat processors.

The pigmeat producers and the early stage processors are producers of boned uncooked meat, which is "like product" to imports of boned, uncooked pigmeat from Canada. Increases in Canadian imports are depressing prices in the pork market. This is causing significant overall impairment in the position of the majority of pork producers as well as the majority of pork early stage processors.

The increases in imports represent a threat of serious injury which is clearly imminent to both producers and early stage processors.

Imposition of a Provisional Safeguard Measure within the meaning of Article 6 of the Agreement on Safeguards is warranted. There is clear evidence that increased imports are impairing, and threatening to further impair to a significant degree the position of producers of pigmeat in Australia.

The Commission should recommend imposition of a Provisional Safeguard Measure now. It can do so without applying the more laborious and exacting tests required in Articles 2 to 7 of the Agreement for investigating the case for imposition of a general Safeguard Measure. A tariff of 100 percent is proposed.

A general Safeguard Measure is warranted to remedy the serious injury which is being caused and which is further threatened. The measure proposed should gradually reduce to facilitate structural adjustment in the production and processing of pigmeat. A quota of 5120 tonnes and an out of quota tariff of 50 percent is proposed.

This measure is necessary to remedy the serious injury and prevent the threat of serious injury, and will facilitate adjustment.

3. The case for Provisional Safeguard Measures

In the Council's view, the Commission has the authority to recommend imposition of a Provisional Safeguard Measure. Its reasoning on this is set out in an Attachment to this note. The Council is puzzled why this matter is not addressed in the Productivity Commission's Issues Paper.

Council is also aware that the Government through the Department of Foreign Affairs and Trade advised the WTO that the need for Provisional Measures is not being investigated. It is not aware of a decision by the Commission to limit the scope of its inquiry in this way, having presumed from the terms of reference and the comments made in paragraph 16 of Special Gazette S 297 that investigation of Provisional Measures would be a normal part of the Commission’s work.

4. What are ”like" or "directly competitive" products?

In the circumstances of this case, "like products" are boned pigmeat legs. It is the producers of this product who have been injured by the imports of Canadian pigmeat.

The Commission stated in its Issues paper that it had to establish which producers create like or directly competitive products. The Council submits that all the Commission has to establish is whether or not the complainants in this case meet those criteria. Are they either a producer of like product or a producer of directly competitive product?

The Safeguards Agreement does not say that the impact of imports on both like and directly competitive products has to be assessed. It states that injury caused by the imports has to affect producers of like or directly competitive products. There has been suggestion that it is incumbent on the inquiry to consider the impact of all directly competitively products. The Council rejects this suggestion. Further comment on this matter is in the Attachment.

It is conceivable that injury could be demonstrated for the producer of "like" products and that the impact on producers of "directly competitive" products be not considered. The failure to consider that impact would not prevent imposition of a safeguard measure to protect the producer of the like product under the terms of the Safeguard Agreement.

Some have sought to misconstrue this provision as entailing an obligation that the impact on both classes of product has to be considered. There is no such obligation.

5. Who is the industry?

The Council contends that the industry is the producers of pigmeat and the processors of pigmeat, excluding downstream manufacturers of pork smallgoods. We might collectively call this sector of the industry producers of early stage processed pigmeat.

The pattern of ownership of pigmeat largely defines this as the injured industry. A high percentage of pork is owned by the growers until it reaches the stage where pigmeat is eviscerated carcass. Creation of boned legs is the next step from the carcass. The boned leg is a premium cut. The price achieved for it affects the price paid for a carcass. A very significant percentage of processors of boned leg meat are also producers of the carcass. There is a high degree of vertical integration in the industry.

It has been contended that the competing industry is in fact processors who include as well manufacturers of small goods. Manufacturers of small goods are consumers of boned leg ham, and are not producers unless they are part of vertically integrated operations.

There is a clear economic case to separate downstream complex processors from the upstream early stage processors. The extent of transformation and alteration of the value of the product is significant in the downstream processors. The economic significance of this is recognised by others, such as for example by the Australian Anti-Dumping Authority when it considered claims that pork was being dumped in 1993.

If there were a case to separate processors from growers for the purpose of defining the "industry", then processors for the purpose of this safeguards inquiry would be pork boning operations, not small goods manufacturers.

6. What is serious injury?

The Agreement on Safeguards defines "serious injury" as a significant overall impairment in the position of the industry. Comparisons with other interpretations of what constitutes serious injury have been made. The Council does not see how this necessarily adds to an understanding of what is serious injury under the Safeguards Agreement. The Council cannot see the point of the Commission’s contention in the Issues Paper that serious injury has a more stringent test than material injury as defined by countervailing or anti-dumping law. It has no quarrel with the general criteria set out in the Issues Paper which repeat those listed in the Agreement on Safeguards. It does not regard interpretation of what constitutes serious injury in jurisdictions of other WTO agreements or in Australian law as it applies to the processing of Countervailing and Anti-Dumping complaints as relevant to this case.

However the Commission has not addressed the meaning of the term "position of the industry". The importance of this can be shown if it is compared with the term "condition". The condition of anything is measurable against how it was before. Becoming unprofitable after being profitable is an obvious change in condition.

The word position means in relation to other things. The position of something is impaired if is means that its standing in relation to other things has altered. The terms in Article 2(a) include reference to shares in domestic markets and levels of sales and production. In assessing the affect on the position of the industry therefore, its standing relative to competing imports has to be taken into account. Evidently profitability and capacity utilisation for example are obvious indicators.

However the Council would contend that the relative standing of the industry, measured by share of the market for example, has to be taken into account as well as the general condition of the industry.

7. Are imports causing serious injury?

The Council contends that the causal linkage between increases in imports and serious injury to industry is established when increases in imports can be shown to have a critical impact on causing serious damage to industry.

Serious injury is established when injury spreads across a significant breadth of producers, according to the agreement, either "a major proportion of producers" or the "whole of producers" . There has to be an impairment of the position of the industry which those producers constitute.

Some have contended that the quantitative impact of the injury caused by imports needs to be established against the quantitative impact of injury caused by domestic factors. The Agreement stipulates that injury caused at the same time by domestic factors cannot be counted towards the injury caused by imports.

The Council does not consider that much is to be gained by trying to assess the relative impact of one source of injury over another. All that has to be demonstrated is that the increase in imports has "caused or threaten to cause" (Article 2 (a)) serious injury. The impact can be cumulative. It is the effect of the increase, not the size of the increase which is the material factor.

At any time in any industry, "domestic" factors can be regarded as causing injury. The Council contends that if increased imports clearly act as an independent factor and can be identified as such, the cause of increased levels of imports can be clearly established.

8. Public interest issues

In the Issues Paper the Commission raised the matter of the views of interested parties and its obligation to have regard to certain interests of the Commonwealth Government.

It refers to two matters on the basis of reference to them in the Agreement on Safeguards. The first is the requirement in Article 3.1 that the procedures permit interested parties to present their views, “including..*inter alia*, as to whether or not the application of a safeguard measure would be in the public interest”.

The Commission lists several other parties which might be affected by a safeguard measure and then raises the issue of prospective retaliation in the event Australia imposes a safeguard measure.

The conjunction of these points generates a clear implication that the Commission has interest in encouraging expression of public interest in this matter and that it is interested in one type of public interest, namely the consequent negative economic impact of imposition of safeguard measures on other parties.

The Issues Paper also states inaccurately that the country applying the measures is obliged to offer an equivalent concession to affected exporting countries. The Agreement does not say this. The party imposing the safeguard merely has to “endeavour to maintain substantially equivalent concessions”.(Article 8.1).

The Council considers that the Commission is exceeding its brief and inviting the presentation of certain views.

There is no obligation on the Commission to assess the impact on the public interest of imposition of a safeguard measure. It is bound by the Terms of Reference to report on whether or not imposition of a safeguard measure is warranted, according to the terms of the WTO provisions.

The only obligation on it relates to how the investigation of whether or not a safeguard measure is warranted is to be conducted. It is obliged to provide opportunities for interested parties to express their view, including, among other things any opinion about the effect on the public interest.

The Commission is not obliged to take these views into account on matters other than those germane to whether or not a safeguard measure may be imposed according to the provisions of Article XIX and of the Agreement on Safeguards.

There is no practical point in introducing the issue of the impact of retaliatory action. It is impossible to know what retaliatory action might be contemplated. First, there has to be failure by the Government to negotiate compensation with affected parties. Second, an idea of the form of safeguard measure to be imposed and its likely effect need to be known. Third, the Agreement does not permit imposition of retaliatory measures until three years after the imposition of the measure.(Article 8.3).

The issue of what form retaliation may take is hypothetical in the extreme.

The Council is forced to wonder why the Commission has introduced this issue in conjunction with the matter of expressions of view on public interest. The Council is concerned that this may have the effect of leading opinion and does regard this as consistent with the Commission's obligation to provide an impartial forum.

The Commission raised in the issue paper its obligation under the terms of reference to have regard to the Commonwealth Government's requirements for assessing the impact of regulation which affects business.

The Council accepts that the Commission is bound by the terms of reference. For the record it wishes to state its view that whatever conclusion it may arrive at on that matter, it in no way diminishes the right Government has under the WTO provisions to impose a safeguard measure if the terms of WTO provisions are satisfied.

In the Issues Paper, however the Commission has gone beyond what it is required to under the Terms of Reference. The Council has advice from legal counsel that the Commission is not entitled to take into account COAG principles in making its recommendations after the inquiry and that if it does so it may be in a position to have its actions challenged as an improper exercise of power conferred by the Gazette. That opinion is attached for information.

IV. The Economic and Commercial Case for Safeguard Measures

Step 1: Have Imports Increased

According to the Productivity Commission's Issues paper "There must be evidence that imports of frozen, boned pigmeat have increased either in absolute terms or relative to production". The unequivocal answer is **YES,** imports have increased, and increased very substantially. Table 1 clearly shows that total imports of pigmeat into Australia have increased in absolute terms since 1989/90.

Table 1: Imports of Pigmeat into Australia

Year	Volumes (Tonnes)	Value ($A million)
1989/90	928	3.1
1990/91	2,703	12.5
1991/92	5,097	19.9
1992/93	2,617	11.4
1993/94	2,967	13.0
1994/95	4,415	16.6
1995/96	4,132	15.6
1996/97	9,985	41.2
1997/98	10,175	39.9
1998/99 f	11,000	na

Sources: Australian Pork Corporation - PigStats97;f - ABARE, Australian Commodities September 1998, page 328).

1989/90 was chosen as the start year for Table 1 since this was when pork imports were first given access into the country. It is apparent that there was a significant jump in aggregate imports, in absolute terms (more than double) between 1995/96 and 1996/97.

Looking more specifically at the type of product identified by the Productivity Commission as part of its terms of reference for the Inquiry (that is, tariff code 0203.29), it can also be seen very clearly that frozen pork imports have increased substantially. Canada was chosen as the source of importation, since virtually all of these types of imports are sourced from that country. The tonnages and values of these imports are reported in Table 2.

Table 2: Imports of Frozen Meat of Swine (Excluding carcasses and half-carcasses) from Canada into Australia Classified Under Tariff 0203.29

Year	**Volumes (Tonnes)**	**Value ($A million)**
1989/90	0	0
1990/91	809	3.65
1991/92	3,596	12.5
1992/93	1,406	5.01
1993/94	2,026	8.29
1994/95	3,470	12.4
1995/96	3,135	11.6
1996/97	8,549	34.9
1997/98	7,985	30.9

Source: Australian Pork Corporation (Personal Communication)

With respect to the proportion of total imports to domestic production, Table 3 clearly demonstrates that imports have surged relative to production.

Table 3: Imports of Pork leg meat Relative to Production

	Canadian Leg imports (mt)	Bone in equiv.	Production (mt)	Manuf. Production	Leg Prod.	% Leg meat Production

1992/93	1406	2991	329969	214480	70778	4.2
1993/94	2026	4311	344260	223769	73844	5.8
1994/95	3470	7383	351111	228222	75313	9.8
1995/96	3135	6670	333967	217079	71636	9.3
1996/97	8549	18189	325590	211634	69839	26.0
1997/98p	7985	16989	357000	232050	76577	22.0

(1) Based on total pork imports from Canada. Source: PigStats97. P - provisional.

In addition to the annual aggregate data, the import surge is evident on a monthly basis, as illustrated in Chart 1 (below).

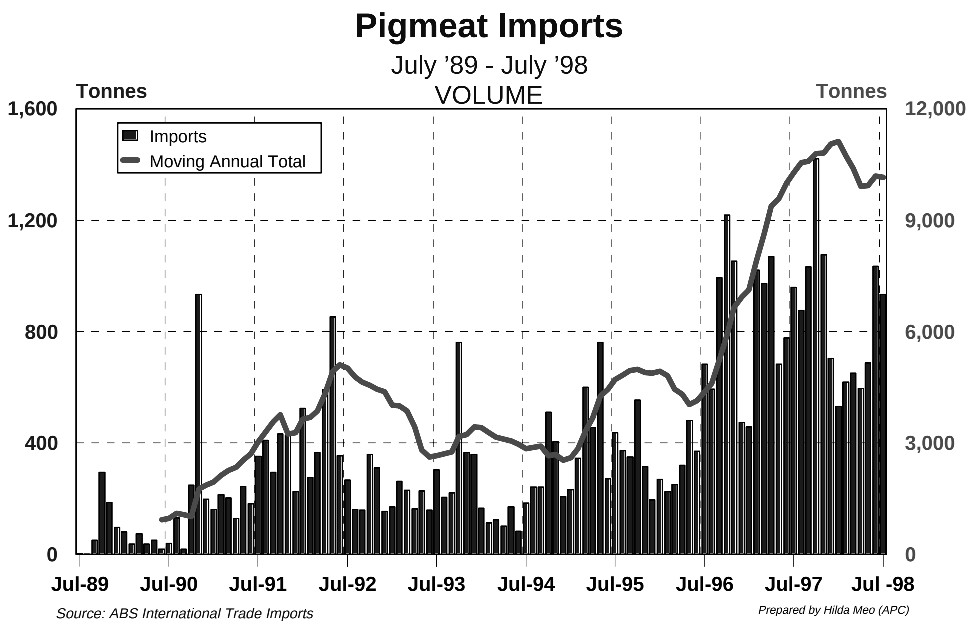


CHART 1: MONTHLY IMPORTS OF ALL PORK (BY VOLUME) AND MONTHLY AVERAGE MOVING TOTAL

Chart 1 shows that imports, on a monthly basis, started an upward trend from about June 1996, when they were around 370 tonnes to October 1996 when they rose sharply to 1218 tonnes. Imports since October 1996 appear to have stabilised at a plateau of around 900-1100 tonnes, a 200% increase on the levels of two years ago. According to the Australian Pork Corporation (Personal Communication) and confirming the Council's assessment, current trends do not indicate any significant easing from this plateau, and go on to suggest that, if imports are not restrained, the industry could see yet another situation where imports surge to a high point in a similar short period.

It is very relevant that ABARE also agrees that the current high surge of imports will continue. ABARE forecast as recently as two weeks ago that imports will rise by 8 per cent in 1998/99 to 11,000 tonnes (ABARE, Australian Commodities September 1998, pages 328-329).

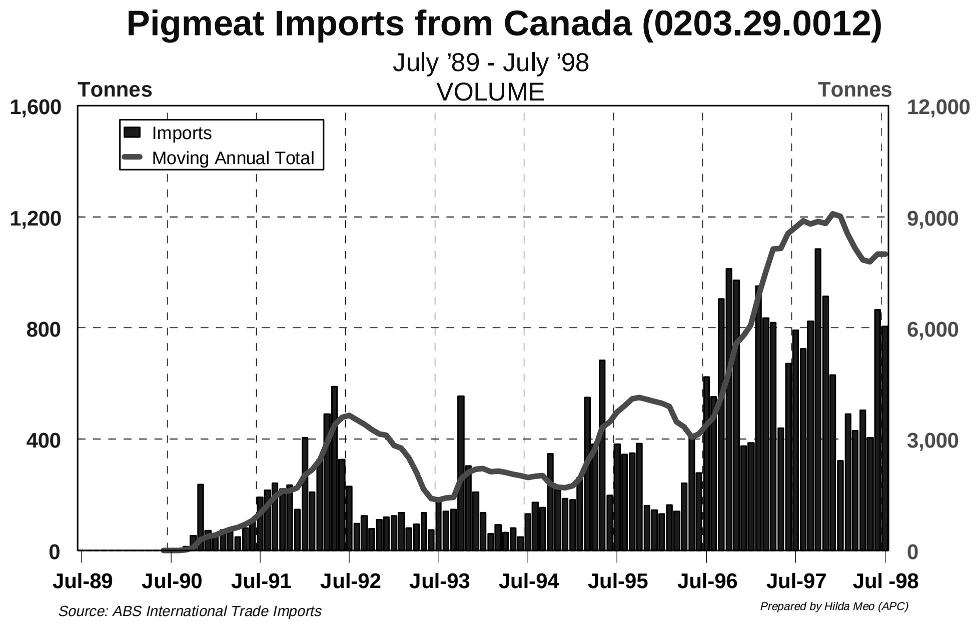


CHART 2: MONTHLY IMPORTS OF PORK FROM CANADA (BY VOLUME) AND MONTHLY AVERAGE MOVING TOTAL

More specifically, it can also be seen that imports from Canada classified under tariff code 0203.29 have increased, and increased sharply between July 1996 and July 1998. The Council notes that the most recent figures (APC, Personal Communication), show that pork imports for August 1998 fell markedly to 305 tonnes (compared to 931 tonnes for July). However, individual monthly figures must be treated with caution: the underlying trend as evidenced by charts 1 and 2 clearly show imports trending upwards.

Step 2: What is the Industry? - Defining Producers of "like" or "Directly Competitive" Goods

The industry which is seriously injured in this case are the early stage producers and processors. They warrant treatment as a single industry because there is a high degree of vertical integration between the growers and the processors. They are clearly separate from the upstream smallgoods manufacturers because the increase in value added between the boned pigmeat and the manufactured meat product is significant.

The early stage producers and processors produce the product which is "like" the import or "directly competes" with it. The product can be regarded as the boned leg meat, fitting under tariff classification 0203.29.

The price of the imported leg meat directly affects the price of the whole carcass and the eviscerated carcass. From an economic standpoint, the carcass can be regarded as products which directly compete with the imported bone leg meat for their capacity to directly affect the price of the carcass products.

Table 4: Distribution of Pig Farms by State (June 1997)

State	Herds	Sows	Ave Herd Size
NSW	1,059	94,223	89
QLD	604	62,126	103
WA	465	33,349	72
VIC	435	56,258	130
SA	680	47,846	70
Tas	90	4,666	52
NT	4	347	87
Tot	**3,337**	**298,815**	**90**

Source: PigStats97

According to an APC industry survey, pig production has a total of approximately 2,136 full and part-time employees. In addition to the 3300 farm operators, the total employment figure adds up to approximately 5,500 workers. Of the 2,136 employees, most are concentrated with producers comprising 400 sows or more. It should be noted that a small number of piggeries were not forthcoming with information about employees, so total employment, is probably under reported.

It is worth pointing out that were the pork industry to collapse due to the continuation of prices below costs-of-production, the economy wide effects, especially in rural and regional centres would be significant. It has been argued (Nigel Smith, Productivity Commission Hearing, Melbourne, 24 August 1998) that prices at 50 cents below costs of production would clearly be unsustainable. Land and farm values would fall, equity in businesses would decline, and debts would escalate. There would be less value added, lower employment, and increased burden on the Government's welfare net. It is also doubtful whether new industries could develop to replace the pork industry unless there was a period allowed for orderly adjustment. The social and economic costs of allowing a situation of declining producer incomes to continue, we believe, outweighs any benefits (perceived or otherwise) of unrestricted free-trade.

With respect to *"like"* and *"directly competitive"* products, Council notes that under the WTO Agreement on safeguards, safeguard action may be justified if imports cause or threaten to cause serious injury to the domestic industry that produces "like" or "directly competitive" products". In the circumstances of this case, "like products" are boned pigmeat legs. It is the producers of this product who have been injured by the imports of Canadian pigmeat.

Using the above criteria, most of the pork imports coming into Australia can also be deemed as being directly competitive with domestic pigmeat.

Yet another argument in favour of Australian pigs being directly competitive goods is that when pigs are sold for slaughter in Australia, the ownership of the pig changes once it has been slaughtered, eviscerated, trimmed and weighed. At this point, the live pig has been transformed into a carcass and has a classification of "pigmeat" or "pork", which is the basis on which producers receive payment (referred to as payment on Hot Slaughter Carcase Weight). Incidentally, this method of selling is similar for Canadian pork producers. Of Australia's total pig sales of approximately 5,000,000, some 95% are sold over the hook or through contract, and 5% through auction.

The price individual pigs attract is based on their hot standard carcass weight (HSCW), and is agreed upon before the pig is slaughtered. Price (cents per kg) is usually influenced by saleyard prices or market indicators, or as recently has been the case, the level and price of imports processors can access.

To summarise, Council considers that Australia's pigmeat producers produce either a like or directly competitive product and that our members produce a product that satisfies either criteria.

Step 3: Has the Industry Suffered, or is Likely to Suffer, Serious Injury?

This step addresses whether the industry has suffered serious injury in the past, whether it is continuing to suffer serious injury, and whether, the industry is, in all probability, likely to continue to suffer serious injury.

Council notes that *"serious injury"* is defined by the World Trade Organisation (WTO) as a "significant overall impairment in the position of a domestic industry, while the threat of serious injury means serious injury that is clearly imminent" (Productivity Commission, Issues Paper, 1998). Council is aware that the Productivity Commission, in order to make its assessment for serious injury, is required to look at a range of performance indicators such as:

- lower sales and/or reduced market share;
- reduced profitability;
- reduced capacity utilisation;
- declining productivity and /or;

- lower employment levels.

Council also notes that in order assess whether serious injury is threatened, that is, *"serious injury that is clearly imminent"* (Productivity Commission Issues Paper, page 17), the Productivity Commission is also required to examine:

- trends in imports
- changes in inventories
- trends in profits, output, employment and productivity, and/or
- the industry's investment outlook and its ability to raise finance.

In order to fully satisfy the test of "serious injury", and the "threat of serious injury", the Council, supported by the Australian Pork Corporation, has conducted, through the assistance of a major market research agency - Stollznow Research Pty Ltd, a comprehensive financial and market survey, which questioned farmers in such a way that satisfied the criteria listed above. Council considers that with 198 producers surveyed (6-7% of all producers and a very representative cross-sectional, sample that covers all of Australia, and one that covers 36% of all sows), we have a very accurate picture, based on a very comprehensive sample, of the financial situation and outlook for farmers. The questionnaire, survey methodology and the results of the survey of are submitted separately, while the main findings of the survey are reported in Table 5 below:

Table 5: Main Findings from Producers Surveyed by the Council in September 1998

Key Data	Actual	1996/97	1997/98	% Change

Producers	3337		198 (6% sample)	
Sows	298,815		106568 (36% sample)	
Slaughterings ,	855,100		1,727,241 (36% sample)	
Ave Herd Size	90 Sows		599	
Ave Slaughter Wt	73 Kgs		68	
Capital Employed		$188 mil	$192 mil	+2.3
Total Profit		$15.2 mil	$2.24	**-85**
Total Losses		$0.83 mil	$9 mil	**+995**
No of Employees	2136	1360	1261	**-7**
Indebtedness to Financial Institutions		$57 mil	$64.3 mil	**+13**
Indebtedness to Feed Companies		3.7 mil	$6.7 mil	**+82**

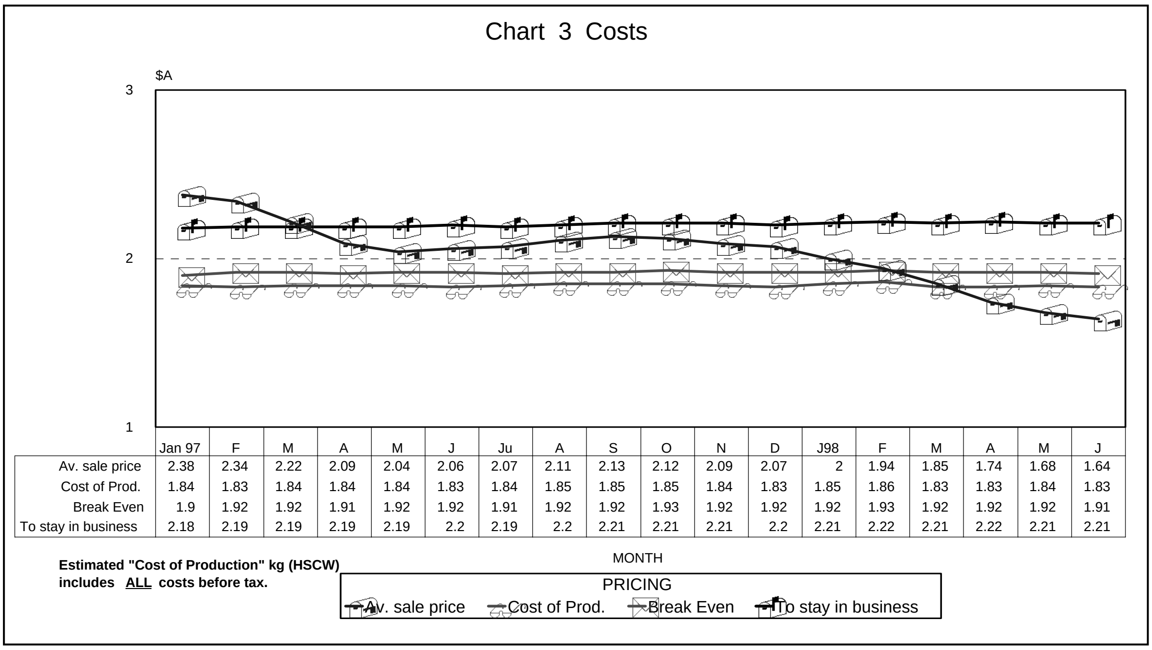
Source: Stollznow Research Pty Ltd, September 1998

As is evident from Table 5, the survey findings, show a significant deterioration in the financial position of most pig farmers. Of those in the sample that made profits in 1996/97 (57%), total profits had dropped by a massive 85% the following year, reflecting the sharp deterioration in pig prices. In 1997/98, only 32% of those surveyed had estimated that they had made a profit. At the same time, the number of producers surveyed that had reported losses in 1996/97 (8%) had risen sharply to 32% by the following year. Total accumulated losses of those sampled had risen by nearly 1,000% in a year, illustrating the extent of very serious injury suffered.

Other evidence of very serious financial hardship experienced by the vast majority of pig producers points to the following:

- A decline in employee numbers of 7%. This figure would, in all probability, be a lot higher were it not for the fact that for a vast number of farms, family labour is employed - in many cases, and especially for the smaller farms, a full-time or part-time staff member had to be retrenched, with the extra work being taken up by the proprietor and/or his or her spouse;
- A rise in total indebtedness by producers to financial institutions by 13%. Since most of this is longer term debt, it reflects a sharp drop in lending which banks and other institutions would have provided for expansions and so on, and also accumulated debt (due to the growing inability to service debt) on the part of the more marginal operators;
- A very sharp rise in the indebtedness of producers to the feed suppliers. Feed costs represent around 60% of total costs-of-production, and this sharp rise is highly indicative of the very serious financial damage being suffered by producers, since it significantly affects their monthly cash-flows. The survey revealed that indebtedness to feed companies rose very sharply by over 80% to $6.7 million. This also represents, a very serious financial situation being experienced by those companies that, through no fault of their own, have to carry such a high debt level. Whilst most of this debt is of a short-term nature, it must be repaid quicker, and with declining revenues, the prospects for early settlement of these debts is bleak. And it has a significant effect on the future cash-flow position of producers, indicating that further threat of serious injury is imminent. Incidentally, this situation also affects the viability of feed suppliers, and contributes to their financial damage.

For the most part, farmers are not covering their costs-of-production, and as a result, suffering serious injury. The industry is characterised by negative cashflows, declining, and negative profits, reduced sales, declining employment levels and reduced capacity utilisation. This is shown in Chart 3 below.



	Jan 97	F	M	A	M	J	Ju	A	S	O	N	D	J98	F	M	A	M	J
Av. sale price	2.38	2.34	2.22	2.09	2.04	2.06	2.07	2.11	2.13	2.12	2.09	2.07	2	1.94	1.85	1.74	1.68	1.64
Cost of Prod.	1.84	1.83	1.84	1.84	1.84	1.83	1.84	1.85	1.85	1.85	1.84	1.83	1.85	1.86	1.83	1.83	1.84	1.83
Break Even	1.9	1.92	1.92	1.91	1.92	1.92	1.91	1.92	1.92	1.93	1.92	1.92	1.92	1.93	1.92	1.92	1.92	1.91
To stay in business	2.18	2.19	2.19	2.19	2.19	2.2	2.19	2.2	2.21	2.21	2.21	2.2	2.21	2.22	2.21	2.22	2.21	2.21

CHART 3: PRODUCERS' PRODUCTION COSTS, BREAK-EVEN COSTS AND PRICES REQUIRED TO REMAIN VIABLE

Source: Stollznow Research Pty Ltd, September 1998

In addition, the outlook for investment is bleak, since farmers are very uncertain of their future. A continuation of unrestrained imports, coupled with falling farm incomes is causing not only serious injury currently, but also threatens to further cause serious injury.

Step 4: Are Imports Causing Serious Injury

<u>Increased imports must be shown to have caused, or be threatening to cause, serious impairment of the local industry (Productivity Commission, Issues Paper, 1998)</u>. As the following evidence will show, there is a strong negative correlation between increased imports and producer prices.

From mid-July 1991 through to July 1996 (before the import surge), imports remained fairly steady and manageable - between 3000 - 4000 tonnes. But from July 1996, total imports increased rapidly - more than doubling to peak at 11,000 tonnes in 1997. Most recent figures supplied by the Australian Pork Corporation indicate that cumulative imports (ie, a 12 month moving total) to July 1998 were 10,150 tonnes.

Chart 3 illustrates that at the same time that imports were surging (especially from Canada), prices fell dramatically. For example, indicative contract prices at July 1996 were around 240 c/kg, and they had dropped sharply to 210 c/kg by July 1997, and still further to 170 c/kg by July 1998. Since, as earlier discussed, most pigs are marketed through direct contracts or over the hook, indicative baconer prices are comparable with prices received for leg meat.

Producers' perceptions are also important in determining whether or not imports are causing the serious injury. As Chart 4 shows, respondents from Council's survey (92%) believe that competition from imports is the chief contributory cause of injury.

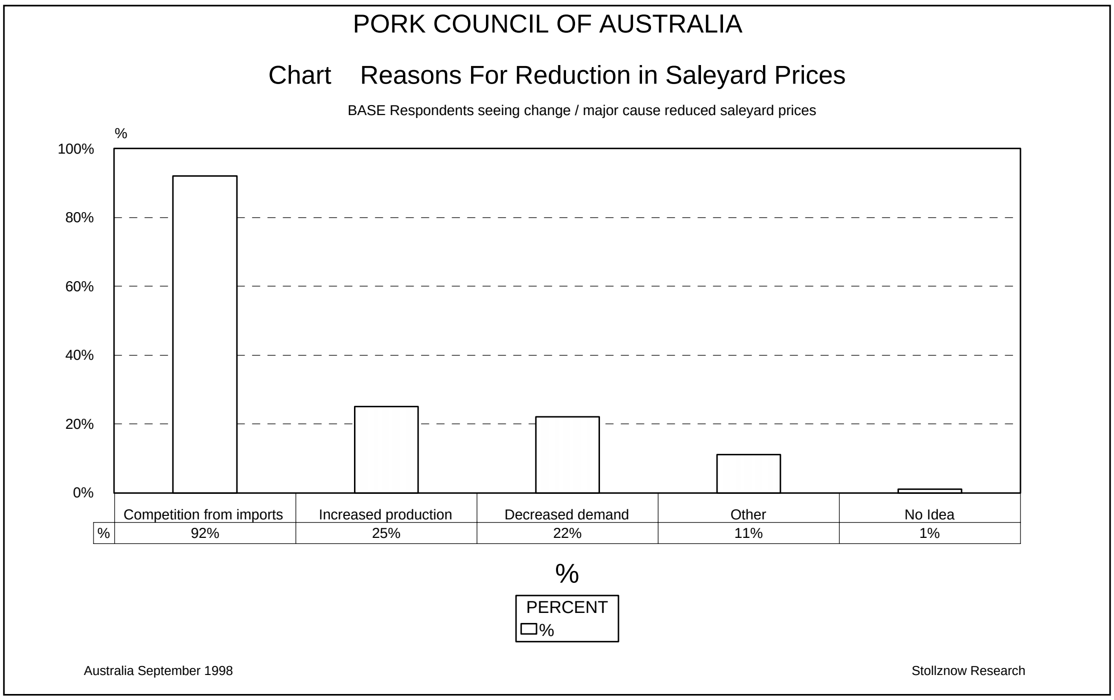


CHART 4: PRODUCERS' ATTITUDES REGARDING THE CAUSILITY OF PRICE DEPRESSION

Whilst imports as a proportion to total domestic production are quite small (about 3%), the commercial reality is that its impact on the market is a lot more significant than the small aggregate proportion would ordinarily suggest. Since most of what is imported from Canada (and to a lesser extent, Denmark) is leg meat, it is necessary to compare imports with equivalent product to get an accurate ratio of imports to domestic production.

Imports are not only causing serious injury to farmers. They are also causing serious financial damage to processors. According to the Submissions lodged by Bunge, Darling Downs Bacon and B E Campbell (which together account for a majority share of the processing sector), all three had suffered serious injury as a result. This suggests that not only farmers, but also the processing sector is suffering damage through unrestrained imports. The industry as a whole is badly damaged through the recent import surge.

The displacement of domestic product as a result of Canadian leg meat is relatively straightforward to calculate.

- For the 12 months ending June 1997, imports of pork into Australia from Canada totalled 8,650 tonnes (frozen leg meat classified under tariff code 0203.29);
- To convert this product into bone-leg equivalent it is assumed a 47% yield was achieved at boning. Therefore bone-in equivalent is equal to: 8650/0.47 = 18,404 tonnes carcass equivalent (bone-in-leg);
- In the same period, Australia produced 323,963 tonnes of carcass equivalent (PigStats97);
- Council estimates that manufacturing accounts for around 65% of total domestic production, and this translates to 0.65 * 323,963 = 210,576 tonnes carcass weight equivalent;
- Assuming that one-third of carcass weight is leg, the total carcass equivalent of legs produced in Australia for the processing sector is: 33% of 210,576 = 69,490
  Therefore the volume of Canadian imported legs as a percentage of Australian

leg production is: 18404/69490 = around 27%.

The direct relationship between Canadian imports of frozen leg meat and domestic indicative prices is clearly evident in Chart 5. That is, when imports of legs are high, prices decline considerably.

The commercial reality therefore is that an 8,650 tonne level of imports represents 27% of legs for ham production in Australia. That is, for every 1 kg of boneless leg ham purchased in Australia, 270 grams will have originated from Canada. This import penetration is very significant in commercial terms, and not surprisingly, has a substantial impact on the domestic industry.

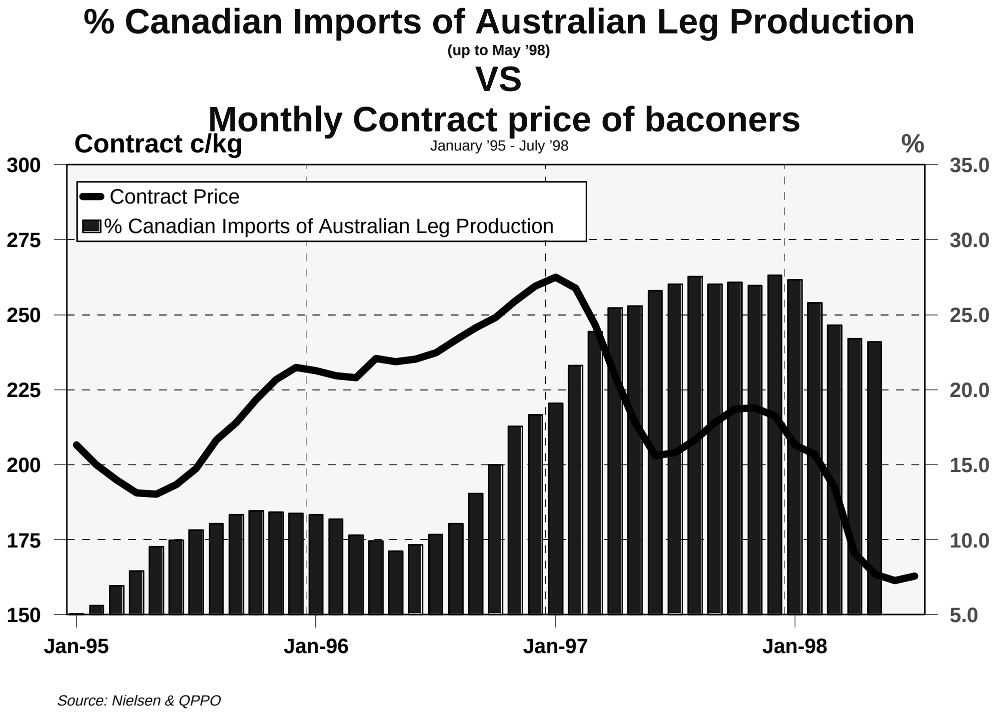


CHART 5 IMPORTS OF CANADIAN LEG PORK AS A PERCENT OF AUSTRALIAN PRODUCTION VS PRICES

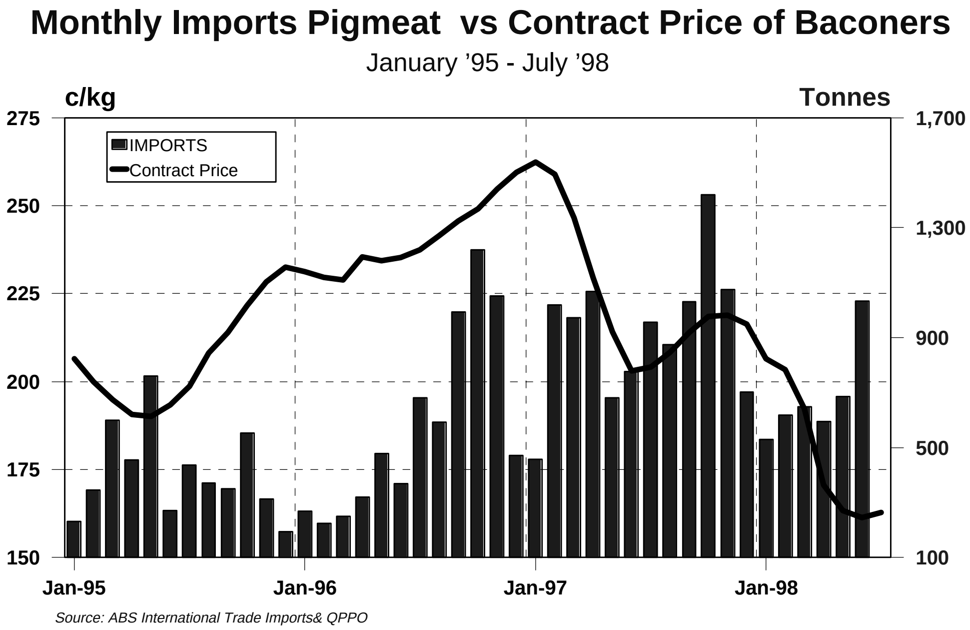


CHART 6: ACTUAL IMPORTS OF PIGMEAT TO INDICATOR PRICES

Looking closely at Chart 5 and the associated data, it is apparent that there is a trigger point above 20% of Canadian imports as a percentage of leg ham production that causes domestic pig prices to fall. It is also critical to note that the particular time of the year, especially in Australia, is also a key driver of domestic pig prices. The period from June to July in any year is a time when there is upward pressure on prices, as processors seek legs for gearing up to the Christmas trade, where the demand for legs is around 30% of total annual sales.

Even seen on the basis of actual imports to prices, it is evident that there is an inverse relationship between high import volumes and domestic prices (Chart 6), and that this phenomenon has been especially pronounced since January 1997 and June 1998 (the period used in Council's survey of producers).

In addition to the above evidence provided by the Council, it is crucial to note that in independent research conducted by Purcell and Harrison (1998), it was demonstrated, via sophisticated econometric analysis, that there is a strong inverse relationship between import prices and volumes and domestic prices and production of pigmeat.

In addition, the Purcell and Harrison study found that not only do import volumes have an effect on prices, but they also contribute over a third to the variability of domestic pigmeat production. This is illustrated in Chart 7 below.

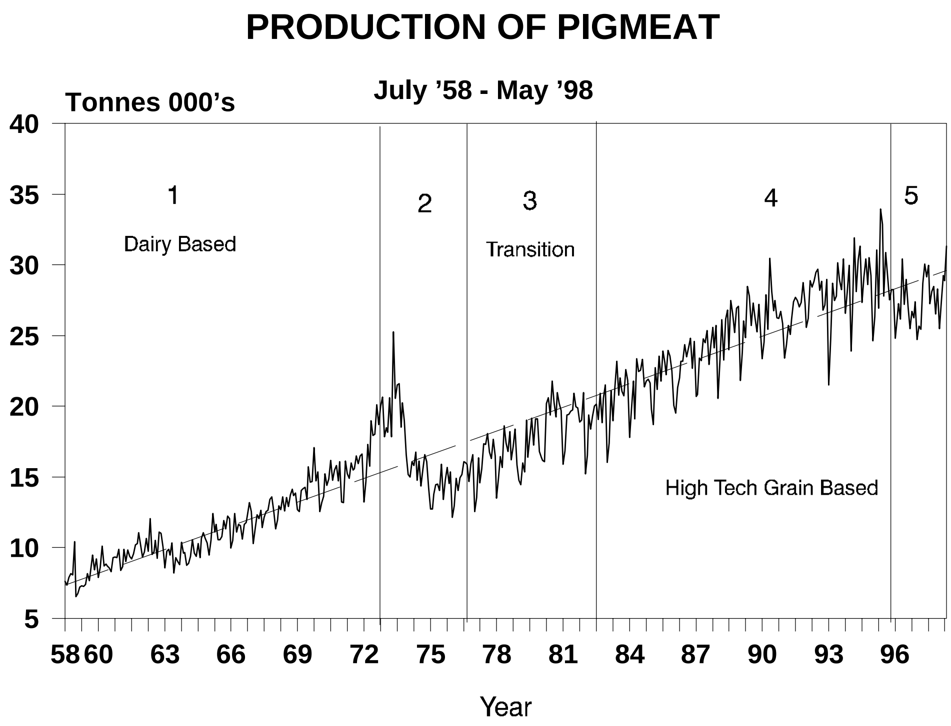


CHART 7: PRODUCTION OF PIGMEAT DECLINING SINCE 1996 (COMMENCEMENT OF IMPORT SURGE).

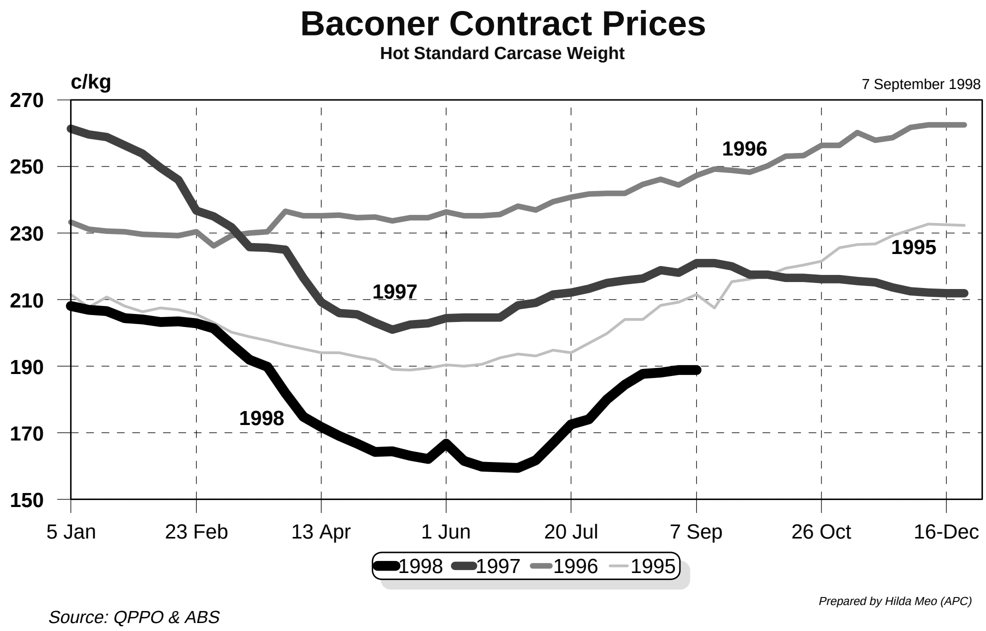


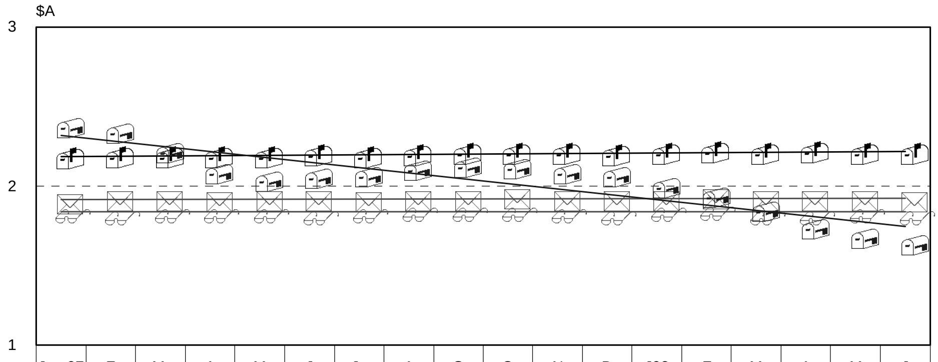
CHART 8: INDICATIVE PIGMEAT PRICES AT DIFFERENT TIMES OF THE YEAR

In considering the issue of threat of serious injury, there can be little doubt that since indicator prices in 1998 are well below those of previous years (Chart 8), this trend would continue were imports to continue at current levels. Moreover, for the first time, the industry is not witnessing the usual upturn in prices that are usually characteristic in the lead up the peak demand period (August to December), as processors seek to build up their stock levels.

Yet another factor affecting the threat of serious injury is that when producers are forced off the land due to adverse economic conditions, apart from the land and some capital equipment (eg tractors), much of the assets are not transferable to other uses. Producers would lose very substantially in a forced sale, particularly on a depressed land and pig asset market. In these circumstances, the threat of serious injury looms very large indeed. The threat of serious injury is also evidenced by Council's survey which shows very clearly, a declining trend of pig prices (Chart 9), which if left to continue will leave producers receiving prices below break-even costs.

PORK COUNCIL OF AUSTRALIA

Chart Costs - TREND



	Jan 97	F	M	A	M	J	Ju	A	S	O	N	D	J98	F	M	A	M	J
Av. sale price	2.38	2.34	2.22	2.09	2.04	2.06	2.07	2.11	2.13	2.12	2.09	2.07	2	1.94	1.85	1.74	1.68	1.64
Cost of Prod.	1.84	1.83	1.84	1.84	1.84	1.83	1.84	1.85	1.85	1.85	1.84	1.83	1.85	1.86	1.83	1.83	1.84	1.83
Break Even	1.9	1.92	1.92	1.91	1.92	1.92	1.91	1.92	1.92	1.93	1.92	1.92	1.92	1.93	1.92	1.92	1.92	1.91
To stay in business	2.18	2.19	2.19	2.19	2.19	2.2	2.19	2.2	2.21	2.21	2.21	2.2	2.21	2.22	2.21	2.22	2.21	2.21

MONTH

Estimated "Cost of Production" kg (HSCW) includes ALL costs before tax.

PRICING

Av. sale price Cost of Prod. Break Even To stay in business

Australia September 1998 Stollznow Research

CHART 9: TREND IN SALE PRICES AND PRODUCTION COSTS

In its Issues Paper, the Productivity Commission had noted that it would need to consider a range of factors other than imports which may be affecting the industry's performance, such as:

- the performance of the economy generally (ie, is the pigmeat industry's performance out of line with than of other businesses);

- weather conditions;
- changes in consumer preferences;
- productivity;
- cost of inputs, labour and capital;
- the impact of changes in the price of substitutes (in production and consumption), for example, beef;
- investment/management/marketing strategies within the industry; and
- structure of the industry.

Council contends that it is imports that are driving the decline in pork prices, not other factors. For example:

- Economic growth in Australia was fairly robust over the past few years. That is, over the time when pig prices were falling, real GDP growth was 4.4% in 1995, 3.8% in 1996 and 2.5% in 1997 (ABARE, 1998). For 1997/98 and 1998/99, economic growth is assumed to average 3% and 3.7% respectively (ABARE, 1998), despite the economic and currency crisis in most of South East Asia and Korea and the strong possibility of recession in the large Japanese economy (Australia’s largest trading partner). Moreover, gross agricultural output grew by 22% in 1996 (reflecting the bounce-back from drought) and again by 12.5% in 1997 (ABARE, 1998). This suggests that the pig industry’s performance was clearly out of line with not only the rest of the economy, but also more specifically the agricultural economy. In other words, neither economic nor agricultural activity were factors in causing serious injury to pig producers.

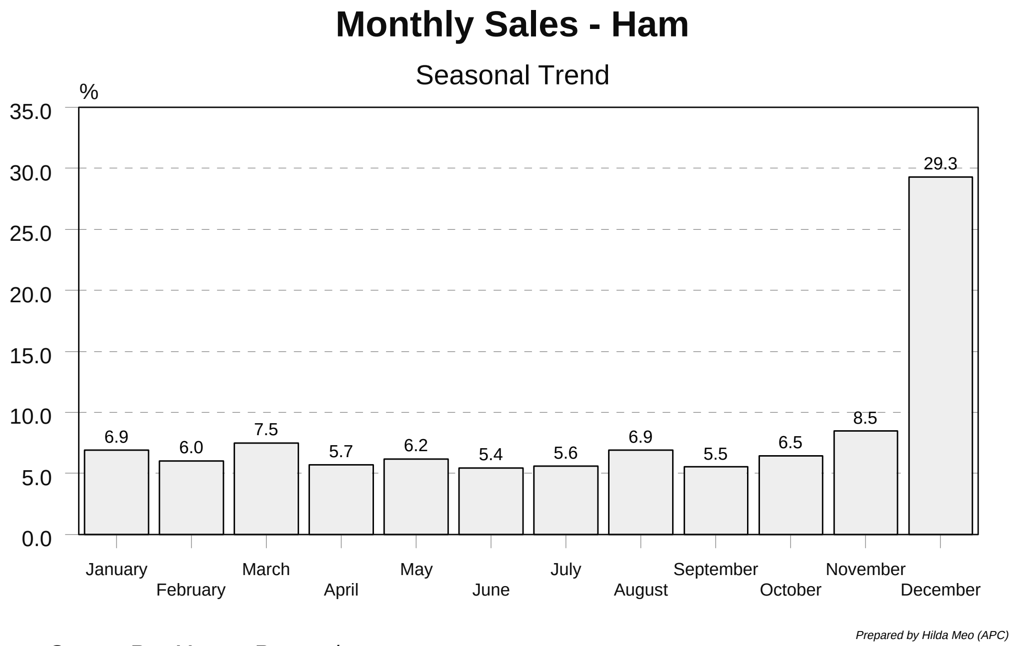
- Weather conditions since mid-1996 to the present period have, for most regions (excepting parts of NSW which were subject to floods in mid-1998) not been particularly adverse. The last major drought was in 1995. Clearly, weather for the most part, and for most regions in Australia had not been a contributing factor to low pig prices and declining incomes.
- Consumer preferences have remained stable over the past five years. Annual pork consumption, on a per head basis, was 19 kgs in 1992/93, and there was only a very marginal decline to 18.8 kgs by 1996/97 (PigStats97). Looking at total meat consumption, there has been a small rise from 95.4 kgs in 1994/95 to 100.5 kgs by 1996/97 (PigStats97), and much of this growth has been due to steady increases in chicken consumption. But looking at the longer term trend (over the last 20 years), its clear that beef consumption has been declining, and pork and chicken consumption has been steadily rising. It's very doubtful therefore that consumer preferences have been responsible for the serious injury faced by pig producers;
- With respect to productivity, it appears from the data that with the fall in employment and with little change in output, there must have been gains in output per head (hence productivity). Declining productivity could not, therefore, have been a contributing factor to falling prices. Furthermore, looking more at the longer term, and as outlined elsewhere in this submission, the industry has undergone profound structural changes over the last 30 years, and these changes in response to external pressures are continuing. Average herd sizes per farm in the industry have increased enormously, reflecting gains from economies of scale and lower associated unit production costs. It's doubtful therefore that lack of productivity gains has been a contributing factor to the recent poor financial performance of the pig industry. Increased production has not been the major driving force behind the damage suffered by the industry. As Table 3 above and the survey commissioned for this submission point out, total industry output has not varied significantly in recent years. Many producers surveyed have increased the

number of pigs sold and as the survey points out, "…This does not not necessarily reflect an overall increase in total industry production. It does reflect an increase among operations included in the sample. Many producers have increased their output and sow numbers to distribute costs over a greater number of sales thus endeavouring to maintain grosss returns but on a smaller margin. This has been made possible because many producers have left the industry. The reduction in their sales has been taken up by those who remain in the industry and who are in a position to increase increase production… The increase in output is considered necessary in such operations to enable costs to be distributed over a greater number of units and so enable the operation to remain viable".

- Unlike the situation in 1995, at the time of the last inquiry into the pigmeat industry conducted by the then Industry Commission when there was a severe drought (and hence a sharp rise in feed grain prices), input costs (chiefly feed, since this accounts for around 60% of all production costs) have tended to rise in line with the CPI. Even accounting for the drought of 1995, feed costs have risen from $1.07 kg (per HSCW) to $1.27 kg by 1997, an annual average rise of 3.7% a year (PigStats97). Indeed, since the 1995 drought, feed prices have come down significantly. Labour costs, if anything, has fallen in real terms, reflecting lower than CPI growth as a result of continuing high unemployment. Capital costs have also fallen, reflecting recent falls in interest rates. All in all, therefore, the costs of inputs, labour and capital have not been responsible for the marked decline in pig farm profitability. Feed and other input factors will be addressed in the second submission dealing with profitability and competitiveness.

- With respect to the impact of changes in the price of substitutes, beef and leg ham are very distinct products, with very different market segments, different demand patterns and different end uses. For example, as earlier noted, nearly 40% of leg annual ham sold is during November and December (see Chart 10), when demand for this product is extremely inelastic with respect to its own price. Clearly, beef and frozen leg ham (tariff code 0203.29) and not substitutes. At a more general level, the view that there is a strong cross-price elasticity between beef and pork, and as a consequence, falling beef domestic prices can explain falling pork prices, is open to serious question. Market research and the expert views of food industry analysts conclude that an array of factors such as convenience, health, lifestyle, etc are the more powerful explanatory factors with regard to the demand for meat - particularly white meats - and foods generally. Attachment 4 from A.C. Nielsen (letter dated 2 October 1998 to the Australian Pork Corporation) supports this view. Attachment 7 (letter dated 2 October from the Australian Pork Corporation to Mr. Brian Ramsay, CEO, Pork Council of Australia) also supports this view. Council also draws attention to a wide variety of published literature on the Australian and world food industries which also shows that many factors , for example, lifestyle, convenience, health, etc are by far the dominant factors in explaining the demand for food (see, for example,*The Future of Food*, OECD Paris 1998, ISBN 9264156941). It is both exaggerated and wrong to assert that cross price elasticity between beef and pork is the main explanation for weakness in pork prices in Australian in the recent past. This appears to be a central argument of the ABARE article, cited in the Commission's Issues Paper, page 19. It is also relevant that so far as the Council can ascertain, the data set on which ABARE and other academic research on cross price elasticity has been undertaken from 1978 to 1988. It must be seriously questioned whether a data set of a past era is relevant to contemporary experience.

- With respect to investment, the poor returns currently experienced by producers is leading to a much greater reluctance on the part of banks and other financial institutions in lending money to pig enterprises for expansion and other improvements. But this is more of a longer term issue in determining its effect on achieving a more competitive cost structure. This will be addressed in the Council's other submission on competitiveness. For management adaptation, it is clear that with the reductions in staffing levels that had to be made, and other adjustments such as changes in the use of chemicals and setting animal welfare standards, as well as increasing carcass weights and reducing fat scores all point to good, effective practices. With respect to marketing strategies, this falls under the aegis of the Australian Pork Corporation. And in its strategic plan for 1998/99 to 2000/01, the APC has the following objectives - to increase profitable and sustainable market share for pork and processed pork products in the retail and food service sectors, and to assist industry to overcome barriers and develop export markets to help achieve a balance between supply and market driven pricing . Taken together, investment, management and marketing practices suggest that they would have had no impact in influencing low pig prices.



Source: Roy Morgan Research

CHART 10: DEMAND PATTERN OF HAM THROUGHOUT THE YEAR

In conclusion to Step 4, namely whether imports causing serious injury, Council argues that **imports are the chief variable driving domestic pork prices, which in turn determines producer's pig prices**. It is unlikely that other factors such as those outlined above, viz, the state of the economy, weather, costs of inputs and beef prices had been responsible for the sharp drop in pig prices, and hence, producer returns. As the above analysis, and as the findings of the Council's comprehensive survey reveal, imports are driving the low pig price performance, which is causing serious injury to the vast majority of Australia's pig producers.

Step 5: What safeguard Measures Would Remedy Serious Injury?

According to the terms of reference of the Productivity Commission's Inquiry into the pigmeat industry, and WTO rules as they relate to safeguards, if it is determined that increased imports have caused serious injury to the local industry, safeguard measures can be applied to restrict the flow of imports for a limited period of time. Safeguard measures may comprise tariffs or quantitative restrictions (Productivity Commission, Issues Paper 1998).

As the evidence in steps 3 and 4 have clearly demonstrated, the domestic pig industry has suffered serious injury, and the cause of this injury is unrestrained imports, which has caused very low pig prices throughout most of 1997 and 1998. The Council considers that the following safeguard measures will, according to the terms of reference of the Commission's Inquiry, and WTO rules, provide a proper remedy to the industry to the extent attributable to unrestrained imports:

The Council insists that the Safeguards Measures to be applied must be commercially credible in the marketplace, and in the eyes of the Australian industry, to demonstrate that imports will in fact be restrained and commercial stability will be restored in Australia so that industry can get on with the job of structural change and competitiveness improvement. In a submission to the Federal government on 23 June 1998, the Council proposed a number of measures, with the key proposals being:

- Urgent provisional safeguard action for 200 days by the application of a tariff of $2 per kilogram on imported uncooked pigmeat pursuant to Article 6 of the GATT Agreement on Safeguards.

- A Temporary Tariff Quota for four years on pigmeat imports set at 4,000 tonnes at current bound rates of duty with imports thereafter at a duty of $2 per kilogram following industry agreed public investigation procedures by the Productivity Commission.

The Council maintains that only strong and clear safeguards measures along the lines of the above will have the commercial credibility in the marketplace to bring about the desired stabilisation of the industry. This is against the commercially uncertain environment now prevailing - and the clear industry expectation that if no action is taken and imports continue without restraint on the prevailing zero bound tariff basis, then the surge will continue and the expectation of a further 8 percent increase in imports to reach 11,000 tonnes will easily happen.

Industry and commercial credibility requires that imports be restrained temporarily at around the mid 1990’s level of 4,000 tonnes with a tariff of around $2 per kg to be imposed provisionally and in an out of quota context.

A moving average calculation of the three years to 1997/98 would yield a tonnage of 5,120 tonnes. A tonnage of this level would be within the range of acceptable industry/commercial credibility and could be agreed to if a moving average approach was found to be preferable for technical trade policy reasons. However, the Council stresses that the current atmosphere in the industry requires a significant restraint at around 4,000 to 5000 tonnes level for safeguards measures to be effective. Similarly, the Council could not entertain tariffs, both provisional and out of quota, which are not clear in signalling to the industry and importers that the present unsatisfactory and out of control crisis is being firmly stabilised by the Australian government.

While calculations based on price elasticities could be pursued to endeavour to arrive at some pseudo scientific level of safeguards tariffs, we believe such an approach would be of limited value. The Council's view of what is required as industry credible levels of tariff and tariff/quota measures must prevail.

Council considers that the above tariff-quota arrangement will not only remedy the serious injury caused by unlimited imports, but more importantly, will over time allow for the industry to become more competitive and export oriented, which is where we believe the longer term future lies

A good example of orderly structural adjustment with the assistance of a tariff-quota was given (in the Productivity Commission hearing in Melbourne on 24 August) by Mr. Nigel Smith, General Manager of Sales and Processing for the Bunge Meat Industries Group, the largest vertically-integrated pork producer in the country, which accounts for 19% of domestic pigmeat. Mr. Smith had commented as follows: *"This 4-year temporary tariff quota would allow sufficient time for our company to expand our existing slaughter capacity but more importantly will allow us to expand our boning operation from which exports to Japan will originate. Our plan is by the year 2002 to have up to 25 to 30 per* *cent of our production going export, up from our current 10%".*

Mr. Smith made the very pertinent remark that were prices, and hence producer returns, to continue to occur at the current depressed levels, the above expansion plan would not proceed. In other words, the four-year tariff-quota would allow the company time to rationalise production facilities and the new housing systems that the company is currently undertaking. Furthermore, Mr. Smith went on to tell the Commission that other operators with similar expansion plans, namely the Auspork Group, Danpork and Darling Downs Bacon would also put their operations on hold if they did not have some certainty in the marketplace. The market instability caused by the depressed prices is clearly having a flow-on effect on the rest of the rural economy through putting on hold plans for expansions to employment and value-added, all of which generate sustainable economic growth in the long run.

In addition, it was also noted by Bunge that the temporary import tariff-quota would provide time to further develop the domestic market in areas such as ready retail packs, fast food products and further penetration into food service areas.

Turning to export market development growth, as noted earlier in this submission export earnings had doubled over the past four to five years, but this was off a very low base of $25 million. Current exports are approximately $50 million (ABARE, 1998), but they still only represent about 4% of national pigmeat production. There is therefore considerable scope for improvement on this figure, and with time to adjust, Council considers that there is every likelihood, based on the statements of industry representatives like Mr Smith, that exports will increase - but only if returns are allowed to pick-up to normal levels.

In recent years, the industry has commenced exporting to countries such as Japan and Russia, and there are also opportunities for penetration into other markets. But before such marketing can take place, the industry needs to undertake significant expansion in infrastructure and capacity. The capacity of existing abattoirs is limited, and new export facilities will only come on line if there is greater confidence in the future.

In short, domestic pigmeat operators need some assurance of manageable import quantities if they are to expand to bring about the critical mass required not only to meet domestic requirements, but also to generate efficiencies in slaughtering, economic throughput and available quantity to meet the specific demands of the export market.

The tariff-quota approach outlined above by the Council would, we believe, stabilise the domestic market situation considerably. Given the inverse relationship between import levels and pig prices, a temporary import restraint will lead to an almost immediate stabilisation of the market, which would allow adjustment to continue toward increased production, value-added products and exports.

The temporary tariff-quota would therefore provide the “breathing space” necessary for the industry to make a sustainable recovery. It would also allow for a normal pattern of adjustment so that efficient producers who would ordinarily be unaffected by the price depression could be allowed to remain in the industry. Such producers could well be forced out of the industry under present circumstances, and this would have a detrimental effect on the longer-term competitiveness of the industry. The loss of efficient producers would create a net welfare loss to both the agricultural sector, and the economy at large, since it would mean that people who have a comparative advantage in farming would have to train for new occupations for which they may not be suited, and would not be their first choice. Moreover, there would be a greater influx of people moving to the larger cities from rural areas, which would put population and infrastructure pressures on those cities.

The Council is of the firm belief that the safeguard measures outlined above would lead, over time, to a more cost competitive, export oriented sector pig industry, with the efficient producers remaining in the industry, producing and exporting a greater proportion of their product.

Step 6:Views of other interested parties.

In the Issues Paper the Commission raised the matter of the views of interested parties and its obligation to have regard to certain interests of the Commonwealth Government.

It refers to two matters on the basis of reference to them in the Agreement on Safeguards. The first is the requirement in Article 3.1 that the procedures permit interested parties to present their views, "including..*inter alia*, as to whether or not the application of a safeguard measure would be in the public interest".

The Commission lists several other parties which might be affected by a safeguard measure and then raises the issue of prospective retaliation in the event Australia imposes a safeguard measure.

The conjunction of these points generates a clear implication that the Commission has interest in encouraging expression of public interest in this matter and that it is interested in one type of public interest, namely the consequent negative economic impact of imposition of safeguard measures on other parties.

The Issues Paper also states inaccurately that the country applying the measures is obliged to offer an equivalent concession to affected exporting countries. The Agreement does not say this. The party imposing the safeguard merely has to "endeavour to maintain substantially equivalent concessions".(Article 8.1).

The Council considers that the Commission is exceeding its brief and inviting the presentation of certain views.

There is no obligation on the Commission to assess the impact on the public interest of imposition of a safeguard measure. It is bound by the Terms of Reference to report on whether or not imposition of a safeguard measure is warranted, according to the terms of the WTO provisions.

The only obligation on it relates to how the investigation of whether or not a safeguard measure is warranted is to be conducted. It is obliged to provide opportunities for interested parties to express their view, including, among other things any opinion about the effect on the public interest.

The Commission is not obliged to take these views into account on matters other than those germane to whether or not a safeguard measure may be imposed according to the provisions of Article XIX and of the Agreement on Safeguards.

There is no practical point in introducing the issue of the impact of retaliatory action. It is impossible to know what retaliatory action might be contemplated. First, there has to be failure by the Government to negotiate compensation with affected parties. Second, an idea of the form of safeguard measure to be imposed and its likely effect need to be known. Third, the Agreement does not permit imposition of retaliatory measures until three years after the imposition of the measure.(Article 8.3).

The issue of what form retaliation may take is hypothetical in the extreme.

The Council is forced to wonder why the Commission has introduced this issue in conjunction with the matter of expressions of view on public interest. The Council is concerned that this may have the effect of leading opinion and does not regard this as consistent with the Commission's obligation to provide an impartial forum.

The Commission raised in the issue paper its obligation under the terms of reference to have regard to the Commonwealth Government's requirements for assessing the impact of regulation which affects business.

The Council accepts that the Commission is bound by the terms of reference. For the record it wishes to state its view that whatever conclusion it may arrive at on that matter, it in no way diminishes the right Government has under the WTO provisions to impose a safeguard measure if the terms of WTO provisions are satisfied.

In the Issues Paper, however the Commission has gone beyond what it is required to under the Terms of Reference. The Council has advice from legal counsel that the Commission is not entitled to take into account COAG principles in making its recommendations after the inquiry and that if it does so it may be in a position to have its actions challenged as an improper exercise of power conferred by the Gazette. That opinion is attached for information.

V. CONCLUSION

The industry is in crisis. The overwhelming cause of this crisis is the unexpected surge in imports. The industry is suffering and is likely to continue to suffer serious injury.

Australia's commitments in the Uruguay Round to bind pork imports at a zero tariff has created a framework which is driving the structural adjustment of the industry. Industry notes in passing that it was never consulted about that commitment. It is presumed that Australia's trade negotiators assumed imports would continue at the level at which imports were observed following the removal of certain quarantine restrictions a few years earlier. The industry is prepared to continue to compete and develop in the long term on the basis of the zero bound tariff.

The unexpected and unplanned import surge of the last few years is a crisis of unparalleled proportions for the Australian industry. Imports have tripled in a short space of time. They are clearly expected to continue to climb. The surge in imports has damaged and will continue to damage the industry and it has de-railed the process of orderly structural adjustment.

The Council submits that the circumstances of the industry today create the classic case for which the safeguard provisions of the WTO were designed. There is a need to temporarily waive the commitment to bind imports of frozen pork leg meat to give the Australian industry a respite to enable it to improve its competitiveness in an orderly manner.

The critical issue is how the increase in imports has caused serious injury to the Australian industry. The Council considers that the case is plain. The increased imports have depressed prices and adversely affected the welfare of the industry.

The Council is deeply conscious that there is a widespread view that adoption of a safeguard measure is tantamount to a restoration of protection. This is a regrettable setting for this case. The WTO safeguard provisions are a central element of the machinery of multilateral trade liberalisation. The primary function of the rules of the multilateral system are to assist governments to deal with the public policy issues which arise from the removal of protection to sectors of industry. If there were no such pressures, there would be no need for international agreements. The logic of the economic benefits of liberalisation would be widely understood and governments could proceed to open markets unilaterally.

The safeguard agreements enable governments and industries to manage the process of liberalisation in cases where actions to open markets under the rules of the WTO have exposed domestic markets to much greater competitive pressures than was anticipated. The Council urges the Commission to assess the case for safeguard measures within the spirit of how the provisions are intended to support the global process of multilateral trade liberalisation.

The Commission can recommend adoption of safeguard measures, taking full comfort in the fact that this will not result in a permanent reversal of protection, but rather is simply a temporary mandating of a slower process of adjustment.

ANNEX 1

The Pork Council of Australia and Other Industry Bodies

The Pork Council of Australia

The Council was formed in March 1992 to represent the interests of Australia's pig producers. Membership, whilst voluntary, is high at over 75% of national production. Membership may be held as an individual, corporation, or through associations which represent pig producers. Each type of membership is equal in terms of rights and obligations within the Council. Council is funded entirely by the members, and not via any statutory pig levies. Essentially, Council's mission is to strongly influence the direction, shape and success of the pork industry in Australia to the benefit of producers and thus the Australian community. Given the integrated nature of the industry, some members are, in addition to pig production, involved in slaughtering and processing.

Council works on behalf of producers with Government, industry and corporate bodies to manage issues that do or will affect the pork industry. And in doing so, Council strives to achieve the best possible outcomes for Australia's pork producers.

Some of the issues Council addresses on behalf of Australia's pork producers include:

- Monitoring of levy expenditures: Council closely monitors how pork producers' statutory levy funds are used and provides input into expenditure of funds that will produce the maximum benefit to the industry;
- Export development: Council liaises closely with relevant government agencies and industry bodies to facilitate export development. Council is also active in lobbying for

increased pork access in export markets, and for the removal or reduction of trade barriers;

- Quarantine: Council liaises closely with the Australian Quarantine and Inspection Service (AQIS) to ensure that the interests of the Australian pork industry are met;
- Quality Assurance: To assist in providing a quality product to customers, Council has developed a Hazard Analysis Critical Control Point quality assurance system which is now being implemented across the industry;
- Feed Grains: With feed grains accounting for around 60% of pig farmer’s costs-of-production, Council is striving for policy options that would see producers being able to achieve greater security in feed supply, as well as access to grain at export parity prices, especially in times of drought.

In addition to the Council, there are two other industry related organisations - the Australian Pork Corporation (APC) and the Pig Research and Development Corporation (PRDC).

Australian Pork Corporation (APC)

The APC is the statutory marketing authority for the pig industry. It’s mission is to increase the overall demand and sales of Australian pork, both locally and internationally, and enhance industry returns through effective marketing programs and improved industry cooperation and consultation for the overall benefit of industry. The Corporation achieves this by creating a sustainable and positive positioning for fresh pork, improving customer attitudes and frequency of use and by working with the processing sector on promotion strategies for ham and bacon. It strives to optimise returns to producers based on the product's yield and quality attributes and to level out consumer demand for pork. As part of its brief, the APC also aims to increase export market opportunities for Australian pigmeat.

The Pig Research and Development Corporation (PRDC)

The PRDC's brief is to invest and manage research and development funds to improve the performance and sustainability of the Australian pig industry and increase its global competitiveness. The PRDC is funded by pig producers, who pay a research levy of 70 cents for every pig slaughtered, a payment which is matched dollar for dollar by the Australian Government up to a ceiling of 0.5% of the gross value of the product. PRDC's goals are to:

- Sustain the skilled scientific and industry staffing, feed resources, environmental practices and pig welfare required to maintain the viability and improve the profitability of the Australian pig industry;
- Provide solutions to production, processing and manufacturing research and development issues which constrain the profitability and sustainability of the Australian pig industry;
- Enable the industry to capture the benefits of new technology through a program in technology adoption and skills enhancement;
- Provide research and development requirements for the marketing of Australian pig products and technology.

All three organisations are committed, through their particular briefs, to fostering the development of the Australian pork industry and to generating a competitive, viable and prosperous sector.

ANNEX 2

Background Overview of the Pig Industry

Australian Market

At 326 kt, Australia's pigmeat production is currently less than 0.4% of world production. And with exports currently at around 14.5 kt (Australian Commodity Statistics, 1997), they represent 0.6% of world exports. However, as a percentage of Australian production, exports have doubled from 1.7% in 1993/94 to 3.5% in 1997/98. Thus, while much of Australia's production is diverted onto the domestic market, the situation is gradually changing. In other words, the Australian industry has not, up until recently, focussed on exports, and it is likely that the future focus of the industry will be on the world market. For example, the Australian Pork Corporation has, as part of its longer term strategic plan, an expressly stated objective to "participate in export development to achieve profitable export growth of 10% each year" (APC, Strategic Plan, 1 April 1998)

With its orientation still largely on the domestic market, Australia's pig farmers supply a steadily growing local market through 300,000 sows producing approximately 4.7 million pigs for slaughter each year (Pigstats97). The key features of the Australian Pig Industry are summarised in Table 1.

Table 1: The Australian Industry at a Glance in 1997

Variable	**Figure**
Gross Value of Production (Farmgate)	$693 million
Value of Product at Point of Retail Sale	$2.87 billion

Average Herd Size	90 sows
Pig Slaughterings	4.64 million
Number of Sows	298,815
Number of Pig Producers	3,337
Pigmeat Exports (Volumes) - 1997/98	14,488 tonnes
Pigmeat Exports (Value) - 1997/98	$55.5 million
Pigmeat Imports (Volumes) - 1997/98	10,175 tonnes
Pigmeat Imports (Value) - 1997/98	$39.9 million

Sources: PigStats97 and Australian Commodities (ABARE, June 1998).

Pig farming is well dispersed around Australia, and as such adds considerable value to the rural economy of the entire nation. Of the total of 3,337 farms spread across Australia, 1,059 farms (32%) are located in NSW, 680 farms (20%) in South Australia, 604 farms (18%) in Queensland, 465 farms (14%) in Western Australia, 435 farms (13%) in Victoria, 90 farms (3%) in Tasmania and 4 farms (0.1%) in the Northern Territory. The number of sows is, for the most part, broadly proportional to the actual distribution of farms across Australia. Because of relative lack of volatility in pork production, compared to say grains, sheep, sugar or cattle, the industry is a relatively secure source of rural employment.

Structural change in the Australian pig industry has been rapid, and in its continual drive for efficiency over the years, the industry has undergone considerable rationalisation. From 50,000 producers in 1960, with an average herd size of 4.3 (equating to 211,000 sows), the numbers fell to 20,000 by 1980, with an average herd size of 18.3 (352,000 sows). Again, the number of farms declined to 6,800 by 1990, with an average herd size of 48.3 (331,000 sows). The latest figures show that in 1997, there were 3,337 farms with an average herd size of 89.5 (299,000 sows) (*PigStats97*). Clearly, the longer term trend has been one of declining producer numbers, increasing herd size and increasing productivity per farm (Chart 1).

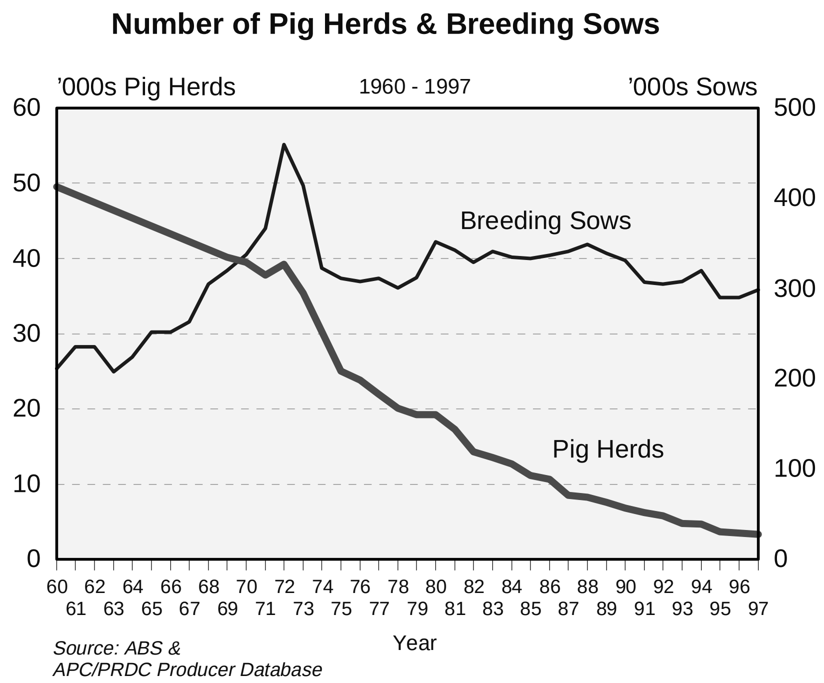


CHART 1: STRUCTURAL CHANGE IN THE AUSTRALIAN PIG INDUSTRY

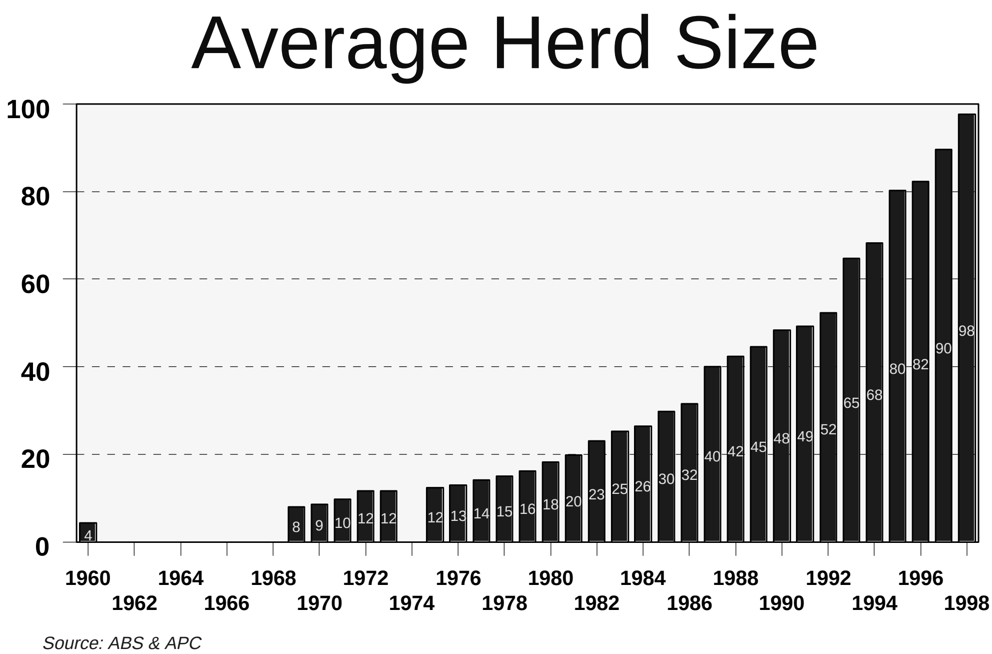


CHART 2: AVERAGE HERD SIZE (NUMBER OF SOWS)

Since the rate of structural change has been very rapid, Council considers that this rate has accelerated beyond what would have occurred were it not for the surge in imports, which now threaten the very future of the industry.

Despite the fact that it has to compete with subsidised product on global markets, the Australian pork industry has performed reasonably well in recent years. Although from a relatively low base of $25 million in 1993/94, exports have more than doubled to $55.5 million by 1997/98 (Table 1), indicating improvements in marketing efforts, product characteristics and improvements in cost competitiveness. This is reflected in increasing average herd sizes (Chart 2), which has generated productivity gains through greater economies of scale.

Turning to Consumption, Australians consume, on an annual average basis, 19 kgs of pig meat per head. Total meat consumption per capita, which includes pigmeat, beef, lamb and poultry, in Australia has risen from 95.4 kg in 1994/95 to 100.5 kg in 1996/97, making it, after the US, one of the highest meat eating countries in the world. There has been a decline in pigmeat consumption in Australia from 19.3 kg in 1994/95 to 18.8 kg in 1996/97, but this is only marginal. The reasons for this include the impact of drought on production and prices during that period. But, as shown in Chart 3, the longer term trend has been an increase in pork consumption, at the expense of beef and veal.

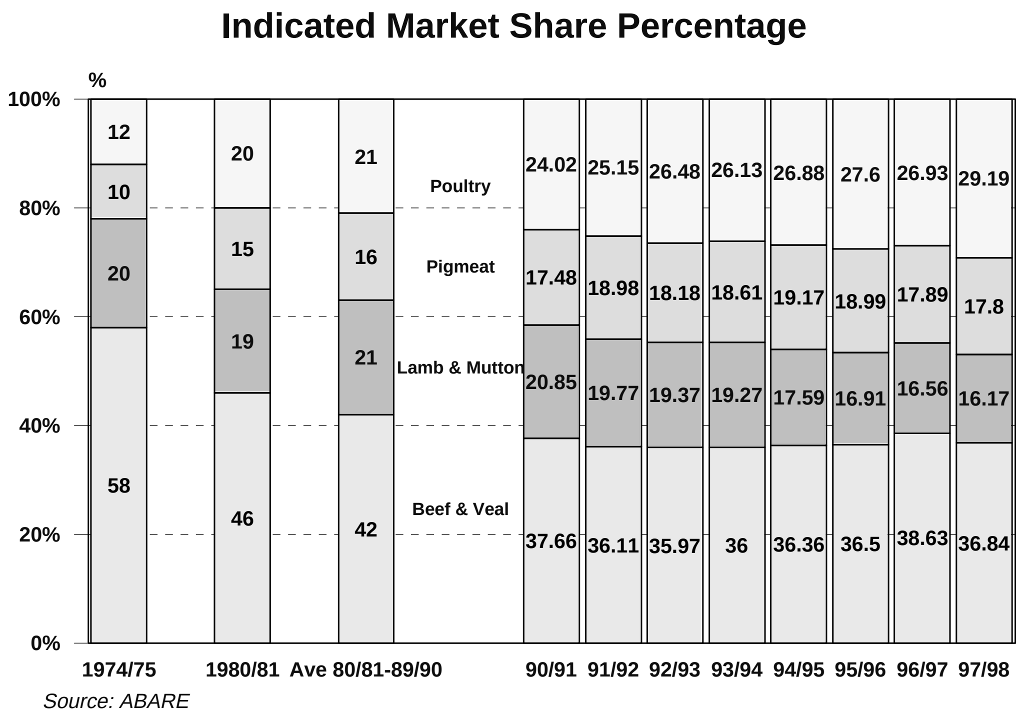


CHART 3: CONSUMPTION OF PIGMEAT IN AUSTRALIA COMPARED TO OTHER MEATS

As shown in Table 2, compared to other countries, pork consumption is moderate, and with further marketing and education campaigns, there is scope for further improvement. Among the highest consuming countries are Denmark, Hong Kong, Germany, China, Canada and the US.

<u>Table 2: World Pigmeat Consumption in Selected Countries</u>

Country	**1996/97 kgs**
Denmark	64.8
Hong Kong	55.4
Germany	53.2
Netherlands	42.7
Taiwan	38.2
China	34.1
Canada	30.1
USA	28.1
Australia	**18.8**
Japan	16.4

Source: PigStats97

3. Commentary on WTO provisions

The Purpose of the WTO Safeguards Provisions.

It is commonly contended that proposals for imposition of safeguards under Article XIX of the GATT and the terms of the WTO Agreement on Safeguards are motivated by desire to reinstate trade barriers against imports. This is true in a narrow sense. The Safeguards provisions are intended to provide a respite against imports. But it is not true in broader sense. The measures are intended as a safety valve in the event commitments to liberalisation create greater disruption to domestic producers than had been anticipated.

As Hoekman and Kostecki note, " The main rationale for the general safeguard clause is to allow some ’flexibility’ with respect to tariff commitments, thereby promoting trade-liberalization efforts."[2]

The drafters of the GATT realised that, in unforeseen circumstances, commitments to open markets under the processes of the GATT might result in circumstances where an increase in imports might seriously injure domestic producers. Article XIX allowed for reimposition of trade barriers if certain conditions were met. Clearly the philosophy was to give domestic industries time to adjust to the circumstances of greater competition.

The provision was never intended to allow permanent protection. Restoration of import barriers was permitted to the extent necessary and for such a time as was necessary to prevent or remedy the injury caused by the increased imports. Other Contracting Parties were entitled to seek compensation, and under certain circumstances to take retaliatory action.

Many observed over the years that the operation of the provisions of Article XIX of the WTO was imperfect. The negotiation in the Uruguay Round of the Agreement on Safeguards was formal recognition of this. The aim was to ensure safety valve operated as intended. The preamble of the Safeguards Agreement recognised the "need to clarify and reinforce" the disciplines of GATT1994. The Preamble recognised "the importance of structural adjustment and the need to enhance rather than limit competition in international markets." In this respect it echoed the intent of Article XIX to support the process of multilateral trade liberalisation.

[2] Hoekman B, Kostecki M, The Political Economy of the World Trading System 1995, Oxford p 167

It is clear that the aim of the Agreement on Safeguards was to correct the imperfections in processes established by Article XIX. In Article 1 it establishes the rules for the application of safeguard measures provided for in Article XIX.

These rules are new. Also, some of the terms of Article XIX do not seem to be consistent with the provisions of the Agreement. This is discussed further in the Annex. As a result, words and phrases are subject to close scrutiny when consideration is given to how to interpret them.

It is natural to use literal interpretation of words to establish meanings. Care needs to be exercised with this method. Like many WTO agreements, the Agreement on Safeguards seeks to achieve a certain economic result. In most cases, provisions of WTO agreements serve to constrain adoption of measures which have a protective effect. This is not the case with the WTO safeguard provisions. Their aim is to provide breathing space from a level of competition from imports which was unforeseen to provide time to re-adjust to the more competitive environment created by the reduction of trade barriers. Specifically, the Agreement provides for the re-introduction of protection on a temporary basis and on specified terms.

In the case of the Article XIX and the Agreement on Safeguards, the extent to which they are successful in meeting their economic purpose will be measured by interpretation of their provisions in a way which permits protection to be introduced in the manner envisaged in the provisions. Where interpretation of provisions is necessary to decide whether or not safeguards should be applied, it is important that the economic intent of the agreement guides interpretation.

The case for a Provisional Safeguard Measure

The Council requested that the Government apply a Provisional Safeguard Measure under Article 6 of the Agreement.

The case to impose a Provisional Safeguard Measure is strong. The Council submission shows that the increase in imports of pork has significantly reduced the returns of growers and processors of pork. This is creating significant impairment in the position of the domestic industry.

The survey of pork producers indicates that many are considering leaving their piggeries. If the flow of imports is not eased, there will be losses and production will fall. Producers will leave the industry, causing damage that will be difficult to repair. This is the critical circumstance envisaged in Article 6 of the Agreement.

If there is no change in these circumstances, the condition of the industry will deteriorate further. The facts of the situation point to this eventuality and are "facts and not merely allegation, conjecture or remote possibility", demonstration of which is required in Article 4.1.(b) of the Agreement to warrant determination that there is a threat of serious injury.

The Council also submits that the tests stipulated in the Agreement to warrant imposition of a Provisional Safeguard are not as stringent as those required for determination that a general Safeguard Measure is warranted.

In assessing the case for a Provisional Safeguard, there is no requirement to satisfy the terms of Articles 2 to 7 of the Safeguards Agreement. This is implicit in the terms of Article 6. It stipulates that a condition for application of a Provisional Measure is that before the 200 day period for which it may be applied expires, the requirements of Articles 2 to 7 shall be met. The logical implication of this is that there is no requirement, nor an expectation, that the provisions of those articles need to inform a process of determination to apply a Provisional Safeguard.

The provision for repayment of a provisional safeguard tariff is another indication that the test is less stringent than that for a recommendation to apply a general Safeguard Measure. So much less so that the possibility is provided for that the measure may ultimately not be warranted when the full test which is established by the rules in Articles 2 to 7 is applied.

In summary, the test to warrant a Provisional Safeguard - "clear evidence of serious injury or the threat of serious industry" - is sufficiently weak that the provision recognises that determinations can be taken which may ultimately not be sustained.

The Council requests that the Commission makes such a recommendation. The Commission considers that the Commission is obliged to investigate the case for imposition of a Provisional Measure.

The Terms of Reference given to the Commission by the Government require it to "report on whether the circumstances are such that safeguard measures would be justified under the WTO Agreement". The Agreement recognises two types of safeguard measures. The first are "Safeguard Measures" the rules for the application of which are set out in Articles 1 to 5, which are meant to be generally applied and are defined by the title of Article 1 as "General Provisions". It would be accurate to describe them as "General Measures". The second type of measure is the "Provisional Safeguard Measure", as provided for in Article 6.

These are clearly two different measures. The test for determining that the Provisional Measure is warranted is weaker that than for the General Measure, there is a different time limit specified for its duration and the nature of the Provisional Measure is limited by the Agreement compared to what form a General Measure may take.

In no way do the terms of reference limit the investigation procedure to "General Measures" only. If that were the intent, the terms of reference would have restricted the brief to the circumstances pertaining to "General Measures", rather than to generic reference to ’safeguard measures justified under the WTO Agreement’.

The Council noted in the Special Gazette S 297 of 25 June 1998 which established the General Procedures for inquires into imposition of safeguard measures under the WTO that Provisional Safeguard Measures are specifically referred to. In paragraph 16, reference is made to the fact that ’a reference can also be made to the Commission for an accelerated report’ on whether the terms under which a Provisional Measure is warranted can be satisfied. The function of this refers appears basically to be a point of information, since the rest of the sentence begins a recital of the provisions of Article 6 which continues throughout the remainder of the paragraph.

The expression "A reference can also be made" might be taken to imply that one hasn’t been made. This is not the case. The terms of reference authorise the Commission to investigate the case for "safeguard measures” provided for by the WTO Agreement. It is implicit authorisation to investigate the case for both a general Safeguard Measure and a Provisional Safeguard Measure.

More importantly, the terms of reference do not say the Commission will not investigate the case for a Provisional Safeguard Measure. Indeed the rest of the terms of paragraph 16 seem appear to direct the Commission to investigate whether a case exists for imposition of a Provisional Safeguard Measure. It states that the Commission "will" report on whether "there is clear evidence that increased imports have caused or are threatening to cause serious injury". This is the test stipulated in Article 6 for imposition of a Provisional Safeguard Measure. It goes on to direct the Commission to recommend what provisional measures would be appropriate if it found that such circumstances (presumably those described in the previous sentence) exist. The rest of the Article details terms for the imposition of Provisional safeguards.

The Council notes for the record that there is nothing in the Agreement on Safeguards which obliges the Government to establish an investigation by "competent authorities" prior to the imposition of a Provisional Safeguard Measure. This obligation is specified in Article 3.1. Article 6 is clear in the implication that the adoption of the procedures specified in Articles 2 to 7 are not a pre-condition for the imposition of a Provisional Safeguard Measure.

Since however the Commission is authorised make a determination about the applicability of a Provisional Safeguard Measure, the Council awaits advice from the Commissioner about what procedures he will follow to investigate the case for Provisional Measure.

The Council is puzzled that the Issues Paper provided by the Commission made no reference to this responsibility.

The Council is also aware that the Government, through the Department of Foreign Affairs and Trade, has reported under the WTO notification procedures on 28 July 1998 that "The current investigation is not examining the need for provisional measures".

The Council is not aware of any pronouncement by the Commission that it was not investigating the case for a Provisional Safeguard Measure and seeks clarification on this matter from the Commission.

A number of issues have been raised by the Commissioner, as well as other parties, about how various provisions of Article XIX of the GATT and the provisions of the Agreement on Safeguards are to apply.

The applicability of the terms of Article XIX and the Agreement on Safeguards, and the relationship between them.

The Commissioner has noted that some terms between Article XIX and the Agreement are not consistent and may raise some difficulty in interpretation. He drew attention to the terms "emergency action" and "unforeseen developments" which are not repeated in the Agreement on Safeguards.

The Council first would like to make the point that the Commission need not preoccupy itself with excessive reflection on the issue of how to interpret the terms of the provisions for the purpose of attempting to bullet-proof its recommendations against appeal in the WTO. In the case of some provisions, there is no precedent to follow in how to interpret provisions.

The Council would argue that the guiding consideration in how to interpret any particular provision should be to give a plain meaning to the terms to produce an outcome which will be consistent with the economic intent of the provisions.

It has been contended that imposition of a safeguard measure has to be in the nature of an "emergency action". There is no basis for this contention.

The word "emergency" appears only in the heading of the Article XIX. It is not referred to in that text and no test of or criteria for "emergency" is specified. The Article nowhere makes this a condition for imposition of a safeguard measure.

The obligation in Article XIX to demonstrate that unforeseen developments are required to warrant a safeguard action may be altered by the terms of the Agreement. The Agreement states directly what conditions a member must apply if a safeguard is justified. (Article 2), how investigations are to be conducted (Article 3), how serious injury and threat of it are to be determined (Article 4) and how measures are to be applied (Article 5). These provisions establish definitions and set terms for testing the terms of key definitions. It states that "only" the conditions spelt out in Article 2 justify a safeguard. Article 1 states clearly that the Agreement "establishes rules for the application of safeguard measures provided for in Article XIX".

The term "unforeseen circumstances" is a notable omission from the Agreement. This raises doubt about the importance of it for justifying a safeguard under the terms of the Safeguard Agreement. This is not the only instance where there is inconsistency between the terms of an Article of GATT 1994 and WTO Agreements. As noted by the Appellate Body, these inconsistencies need to be treated on a case by case basis.

There is one case where the term "as a result of unforeseen developments" is defined. (Working Party on US/Czech trade dispute on hats, 1950 - GATT Analytical Index: Guide to Law and Practice, 6th Edition 1994, p 479), The definition is " developments occurring after the negotiation of the relevant tariff concession which it would not be reasonable to expect that the negotiators of the country making the concession could and should have foreseen at the time when the concession was negotiated".

The terms of Article 1(a) of the Article XIX of GATT 1994 provide a guide to what the unforeseen development might be. It notes that if imports are at "such increased quantities" and under "such conditions" as to cause serious injury, an obligation may be suspended.

The most obvious unforeseen circumstance is that the level and nature of trade was greater and different to what was anticipated by the negotiators when the obligation was entered into. This relates directly to the circumstance that Article XIX was meant to address. In committing to reduce a tariff to a certain level, negotiators anticipated a certain level of trade. The purpose of reducing tariffs was to increase competitiveness by placing domestic producers under competitive pressure. The process was meant to be controlled. The whole concept of trade liberalisation under the GATT was progressive liberalisation - reducing tariffs in stages - to enable domestic industry to adjust gradually to the more competitive circumstance.

The safeguard provision was created in case the Government got it wrong and opened its domestic market too suddenly. It permitted temporary suspension of the obligation to allow a more orderly process of adjustment.

This is certainly the circumstance affecting the imports of pork. The tariff for the product under consideration was bound at zero by Australia on the first of January, 1995. Imports of pork from Canada commenced in 1990 when Australia altered its quarantine procedures. A certain level of trade was observed between 1991/92 and 1994/5, the average being 2625 tonnes, the highest annual imports being 3596. This would have informed the expectation of negotiators about the rate of imports.

The unforeseen development was that that expectation was wrong. Imports of the product concerned rose to 8549 tonnes in 1996/7 and 7985 tonnes in 1997/8. The conjunction of the unforeseen development and the binding of the tariff at zero created the circumstances envisaged in Article XIX.

What are ”like" or "directly competitive" products?

In the circumstances of this case, "like products" are boned pigmeat legs. It is the producers of this product who have been injured by the imports of Canadian pigmeat.

The Commission stated in its Issues paper that it had to establish which producers create like or directly competitive products. The Council submits that all the Commission has to establish is whether or not the complainants in this case meet those criteria. Are they either a producer of like product or a producer of directly competitive product?

The Safeguards Agreement does not say that the impact of imports on both like and directly competitive products has to be assessed. It states that injury caused by the imports has to affect producers of like <u>or</u> directly competitive products. There has been suggestion that it is incumbent on the inquiry to consider the impact on all directly competitively products. The Council rejects this suggestion.

It is conceivable that injury could be demonstrated for the producer of "like" products and the tests for imposing a safeguard satisfied, without the impact on producers of "directly competitive" products being considered. The failure to consider that impact would not prevent imposition of a safeguard measure to protect the producer of the like product under the terms of the Safeguard Agreement.

Some have sought to misconstrue this provision as entailing an obligation that the impact on both classes of product has to be considered. There is no such obligation.

Who is the industry?

The Council contends that the industry is the producers of pigmeat and the processors of pigmeat, excluding downstream manufacturers of pork smallgoods. We might collectively call this sector of the industry producers of early stage processed pigmeat.

The pattern of ownership of pigmeat largely defines this as the injured industry. A high percentage of pork is owned by the growers until it reaches the stage where pigmeat is eviscerated carcass. Creation of boned legs is the next step from the carcass. The boned leg is a premium cut. The price achieved for it affects the price paid for a carcass. A very significant percentage of processors of boned leg ham are also producers of the carcass. There is a high degree of vertical integration in the industry.

It has been contended that the competing industry is in fact processors who include as well manufacturers of small goods. Manufacturers of small goods are consumers of boned leg ham, and are not producers unless they are part of vertically integrated operations.

There is a clear economic case to separate downstream complex processors from the upstream early stage processors. The extent of transformation and alteration of the value of the product is significant in the downstream processors. The economic significance of this is recognised by others, such as for example by the Australian Anti-Dumping Authority when it considered claims that pork was being dumped in 1993.

If there were a case to separate processors from growers for the purpose of defining the "industry", then processors for the purpose of this safeguards inquiry would be early stage processors, not small goods manufacturers.

What is serious injury?

The Agreement on Safeguards defines "serious injury" as a significant overall impairment in the position of the industry. Comparisons with other interpretations of what constitutes serious injury have been made. The Council does not see how this necessarily adds to an understanding of what is serious injury under the Safeguards Agreement. The Council cannot see the point of the Commission's contention in the Issues Paper that serious injury has a more stringent test than material injury as defined by countervailing or anti-dumping law. It has no quarrel with the general criteria set out in the Issues Paper which repeat those listed in the Agreement on Safeguards. It does not regard interpretation of what constitutes serious injury in jurisdictions of other WTO agreements or in Australian law as it applies to the processing of Countervailing and Anti-Dumping complaints as relevant to this case.

The Commission has not addressed the meaning of the term "position of the industry". The importance of this can be shown if it is compared with the term "condition". The condition of anything is measurable against how it was before. Becoming unprofitable after being profitable is an obvious change in condition.

The word position means in relation to other things. The position of something is impaired if is means that its standing in relation to other things has altered. The terms in Article 2(a) include reference to shares in domestic markets and levels of sales and production. In assessing the affect on the position of the industry therefore, its standing relative to competing imports has to be taken into account. Evidently profitability and capacity utilisation for example are obvious indicators.

However the Council would contend that the relative standing of the industry, measured by share of the market for example, has to be taken into account as well as the general condition of the industry.

How do imports cause serious injury?

The Council contends that the causal linkage between increases in imports and serious injury to industry is established when increases in imports can be shown to have a critical impact by causing serious damage to industry.

Serious injury is established when injury spreads across a significant breadth of producers, according to the agreement, either "a major proportion of producers" or the "whole of producers". There has to be an impairment of the position of the industry which those producers constitute.

Some have contended that the quantitative impact of the injury caused by imports needs to be established against the quantitative impact of injury caused by domestic factors. The Agreement stipulates that injury caused at the same time by domestic factors cannot be counted towards the injury caused by imports.

The Council does consider that much is to be gained by trying to assess the relative impact of one source of injury over another. All that has to be demonstrated is that the increase in imports has "caused or threaten to cause" (Article 2 (a)) serious injury. The impact can be cumulative. It is the effect of the increase, not the size of the increase which is the material factor for determining serious injury.

At any time in any industry, "domestic" factors can be regarded as causing injury. The Council contends that if increased imports clearly act as an independent factor and can be identified as such, the cause of increased levels of imports can be clearly established.

Views of other interested parties.

In the Issues Paper the Commission raised the matter of the views of interested parties. It refers to two matters on the basis of reference to them in the Agreement on Safeguards. The first is the requirement in Article 3.1 that the procedures permit interested parties to present their views, "including…*inter alia*, as to whether or not the application of a safeguard measure would be in the public interest". The second issue is the prospect for retaliation against imposition of a safeguard measure. (Article 8).

The Commission lists several other parties, which might be affected by a safeguard measure and then raises the issue of prospective retaliation. The conjunction of these points generates a clear implication that the Commission has interest in encouraging expression of public interest in this matter and that it is interested in one type of public interest, namely the consequent negative economic impact of imposition of safeguard measures on other parties.

The Issues Paper also states inaccurately that the country applying the measures is obliged to offer an equivalent concession to affected exporting countries. The Agreement does not say this. The party imposing the safeguard merely has to "endeavour to maintain substantially equivalent concessions". (Article 8.1).

The Council considers that the Commission is exceeding its brief and inviting the presentation of certain views.

There is no obligation on the Commission to assess the impact on the public interest of imposition of a safeguard measure. It is bound by the Terms of Reference to report on whether or not imposition of a safeguard measure is warranted, according to the terms of the WTO provisions.

The only obligation on it in respect of public interest relates to how the investigation of whether or not a safeguard measure is warranted is to be conducted. It is obliged to provide opportunities for interested parties to express their view, including, among other things, any opinion about the effect on the public interest.

The Commission is not obliged to take these views into account on matters other than those germane to whether or not a safeguard measure may be imposed according to the provisions of Article XIX and of the Agreement on Safeguards.

There is no practical point in introducing the issue of the impact of retaliatory action. It is impossible to know what retaliatory action might be contemplated. First, there has to be failure by the Government to negotiate compensation with affected parties. Second, an idea of the form of safeguard measure to be imposed and its likely effect need to be known. Third, the Agreement does not permit imposition of retaliatory measures until three years after the imposition of the measure. (Article 8.3).

The issue of what form retaliation may take is hypothetical in the extreme.

The Council is forced to wonder why the Commission has introduced this issue in conjunction with the matter of expressions of view on public interest. The Council is concerned that this may have the effect of leading opinion and does regard this as consistent with the Commission's obligation to provide an impartial forum.

ANNEX 4 - Consumer Preferences - letter from AC Neilsen

ANNEX 5 - Commonwealth Government requirements - advice from Blake Dawson Waldron

ANNEX 6 - Government statements

ANNEX 7 - Factors determing consumer purchasing behaviour - letter from APC

MARKET RESEARCH REPORT

PRODUCER RESEARCH

Prepared for:

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September 1998

TABLE OF CONTENTS

1.0 INTRODUCTION

The Treasurer, Mr P Costello, in consultation with the Minister for Primary Industry and Energy and the Minister for Trade has commissioned the Productivity Commission to advise the Government whether the pig industry needs assistance in adjusting to increased competition through the importation of pork.

To this end the Pork Council of Australia was encouraged by the Commissioner, Professor R Snape to undertake a survey of the market and provide factual information for consideration by the Productivity Commission to aid in determining what remedial action is considered to be appropriate, given the current circumstances of the pig industry in Australia.

Stollznow Research Pty Ltd was commissioned by the Pork Council of Australia to initiate a survey among selected producers in order to make available hard data to the Council and thus to the Productivity Commission itself.

This report contains the key findings of the survey, including background information on the methodology of the investigation, certain aspects of the resulting sample, charts, and a set of tabulations which show the level of financial strain being experienced by Australian pork producers.

The Council is making available all data obtained from the investigation to enable independent appraisal of this information to be undertaken as and when, and if necessary.

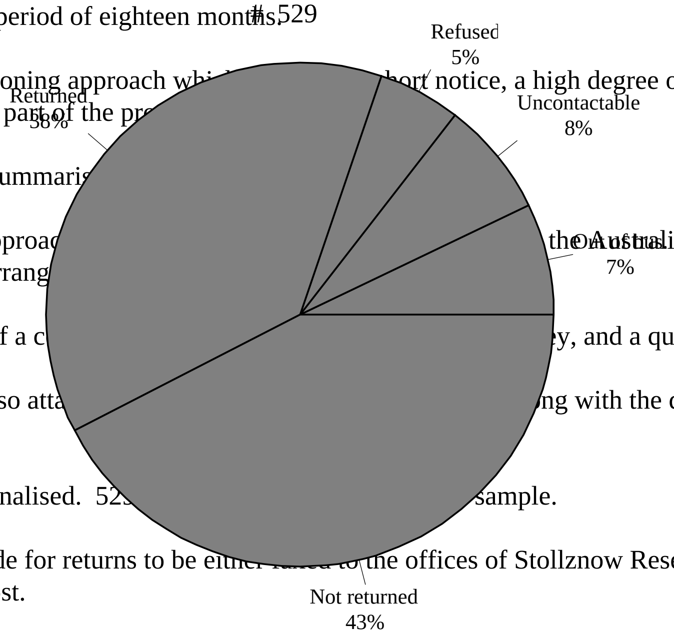
2.0 METHODOLOGY

The selection of the sample for this survey was developed by the Australian Pork Corporation which over the years has developed suitable methodology for obtaining accurate information on the industry through quarterly producer surveys. The sampling procedure is annexed hereto.

It should be noted that it is a stratified random sample based upon various regions.

The mathematics and relative standard error of the sample etc. are contained in Appendix 1.

The research organisation had approximately one fortnight in which to contact producers and obtain returns on the attached questionnaire which, as will be seen, requires provision of a range of complex information covering a period of eighteen months.



It was therefore a questioning approach wh[illegible]ort notice, a high degree of participation and access to records on the part of the pr[illegible]

The response rates are summaris[illegible]

Once the questioning approa[illegible] the Australian Pork Corporation who also arrang[illegible]

The mailing consisted of a c[illegible]y, and a questionnaire.

The covering letter is also atta[illegible]ng with the questionnaire (Appendix 3)

All mailings were personalised. 52[illegible] sample.

Arrangements were made for returns to be ei[illegible] the offices of Stollznow Research Pty Ltd or mailed back via Free Post.

It will be appreciated that because of the time limitations, there being only slightly over two weeks in which to enable the questionnaires to reach respondents and obtain their returns, most responses were received by fax.

All persons receiving a mailing were contacted by telephone to ensure they had received the questionnaire and to enable any queries they may have with regard to completion of the survey to be clarified.

They were then recontacted at a later stage to determine the progress of the completion of the questionnaire and to encourage its return.
Records were kept at Stollznow Research as to who had or had not returned questionnaires. Those who had not returned questionnaires were contacted a third time in order to encourage their participation.

It was only practical to initiate three telephone calls in the time available before the need to commence processing.

It will be obvious therefore that an intense effort went into maximising the return rate of the complex questionnaire.

The response rate was as follows:

Comments:

It is felt that in the amount of time available, and the information required by the questionnaire, the 38% response rate is very positive.

43% of respondents were contacted, but at the time that it was necessary to close off the survey and commence processing the data for the Productivity Commission, the returns had not been received.

Subsequent to the cut-off date a number of returns were forthcoming, but unfortunately these could not be included in the sample.

In addition, certain of the producers included in the 43% who had contacted Stollznow Research were advised that it was no longer necessary to return their questionnaires.

Only 5% of persons contacted refused to participate in the survey.

This leaves 7% of respondents contacted who had quit the industry or where otherwise uncontactable.

An additional 8% of respondents were uncontactable. In one or two instances this was because they were away from the property and would not be returning prior to the cut-off date.

However, uncontactable in this context means that the telephones were not answered even though in many cases they were called ten to twelve times.

Checks were carried out at Stollznow Research to ensure that the telephone numbers were still intact, and subsequent information indicates that a significant number of these respondents may also have quit the industry.

It can be concluded therefore that somewhere between 7% and 15% of the sample contacted have exited the industry or were otherwise uncontactable.

The relevancy and currency of the sample used by the Australian Pork Corporation is understood to be as follows.

The Australian Pork Corporation carries out four-monthly surveys of pig production. To obtain this information they draw on their sample base of 3,337 producers.

Information on producers and slaughterings can be verified by reference to the payment of levies which are automatically deducted at the point of slaughter.

The top 200 producers (which represents one of the stratas on which the sample was selected) are contacted every quarter. The remaining producers are contacted on a rotational basis over a period of time.

The major producers database is therefore updated regularly, while the remaining producers are updated as they figure in the sample rotation.

On this basis it is felt that the base of 3,337 producers is relevant, and reasonably current, although it must be accepted that a number of the less major producers could drop out of the industry and their absence would not be picked up for a period of 12 to 24 months.

The following information represents a summary of the sample compared to known data where appropriate.

PORK COUNCIL OF AUSTRALIA **RESPONDENT INFORMATION # 198**				
DATA	**Actual**	**Respondents 1996/97**	**Respondents 1997/98**	**%**
Producers	3,337		198	5.93%
Sows	298,815 (6/98)		106,568	35.66%
Slaughtering/sold	4,855,100 Actual (12 mths 7/97–6/98)		1,727,341	35.57%
Average sows per producer	90		598.7	
Average slaughter weight	72.8 kg		67.87 (HSCW)*	
Estimated capital employed		$A187,937,210	$A192,232,721	+2.28%
Total profit		$A15,209,198	$A2,224,410 (est)	–85%
Total losses		$A825,726	$A9,038,445 (est)	+ 995%
Number of employees	2,136	1,360	1,261 (est.)	–7%
Indebtedness to financial organisations		$A57,021,664	$A64,301,501 (est)	+13%
Indebtedness to feed companies		$A3,658,951	$A6,669,796 (est)	+82%
* Some light weight piglets included in thi s data, although, as noted elsewhere, piglets sold off sow at say 21 days have been excluded from sample.				

It can be seen that the sample of 198 respondents whose returns have actually been included in the investigation represents 5.93% of the 3,337 producers in the database.

At this point it should be noted that a number of the returns have not been included in the survey where information could not be verified, or where piglets were sold as suckers or where the producer was under contract to some other major producer organisation. This accounted for approximately ten questionnaires which were not included in the sample, but have been shown in the above chart among the 43% of non-returns.

While the sample represents 5.93% of all producers, these producers account for 35.66% of sows, and 35.57% of pig slaughterings or sales. This shows the skew in the sample toward the major producers in accordance with the sampling procedures attached.

The skew toward major producers is also evident in that the average sows per producer among the total database is 90, however, among the respondents it is 598.7. It is not felt that the under-representation of smaller producers in the sample is a major issue in that the data has been analysed by various sow numbers, thus showing any variance between smaller and large producers in terms of their attitudes toward various aspects of the current operation of the pig industry. In addition, it is necessary to have a suitable base to allow cross-tabulation.

It will be seen in the report that in many instances where attitudes are concerned the views of large and small are similar.

Of even greater interest is that the gross capital employed by persons in the sample, taking a 1997/98 estimate is $192,232,721. In the period 1996/97 to 1997/98 the capital investment of the sample increased by 2.28%.

The profits made by the sample respondents in 1996/97 were $15,209,198. This is estimated (by respondents) to have dropped to $2,224,410 in 1997/98, a drop of 85% in profitability.

At the same time, the gross losses estimated by sample respondents in 1996/97 is $825,726. This has escalated to an estimated (by respondents) loss situation of $9,038.445, an increase of 995%.

The number of employees has declined by 7%.

The indebtedness to financial organisations has increased by 13%, and indebtedness to feed companies has increased by 82%.

Comparative Sample Data

The following chart compares the sample data response to the population at large.

It can be seen that 3% of herds (operations) contain more than 400 sows. But this 3% accounts for 53% of all sows held.

At the other end, 82% of pig operations have less than 100 sows and these account for 21% of all sows.

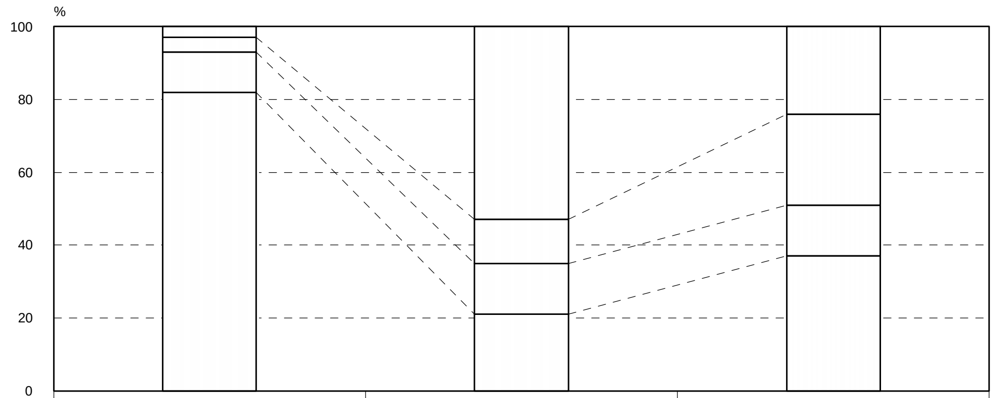
The sample data is by necessity a compromise in that it is important to obtain a sufficiently large sample in each of the subgroups to enable cross-tabulation to be undertaken.

For this reason it can be seen that, whereas herds of 400 or more sows constitute 3% of all herds, they constitute 24% of the sample. At the other extreme, the 82% of herds with less than 100 sows comprise 37% of the sample.

It is clear that the sample is skewed toward larger herds to reflect the fact such farms account for a proportionally larger share of sows.

As indicated above, 'respondents sampled' account for 36% of all sows and 36% of all pigs slaughtered. This constitutes a significant proportion of the overall producer population.

Herd Population Vs Sample



	Population Herds	Population Sows	Sample Sows
> 400	3	53	24
201 - 400	4	12	25
101 - 200	11	14	14
< 100	82	21	37

POPULATIONS Vs SAMPLE

PERCENTAGE
< 100 101 - 200 201 - 400 > 400

Australia September 1998

3.0 SUMMARY

The overall summary and conclusions for the submission to the Productivity Commission is the responsibility of the Pork Council of Australia.

This summary is not therefore an interpretation of the overall situation, but a brief resume highlighting certain key issues which have arisen out of the survey of producers.

- Based on the information provided in the survey, it would appear that pig producers are experiencing serious difficulties and in many cases it could also appear that their operations are becoming less viable. Indeed there is some evidence that a significant number of producers have already left the industry, while this report will show others feel they will soon have to leave or be forced out of the industry.

- Chart 4 in the report gives a broad overview as to why this would appear to be the situation. In April/May 1997 the average sale price went below what the average producer thought was necessary to encourage them to stay in business.

  The situation continued to deteriorate very significantly and at a rapid rate thereafter, until about January 1998 when the sale price dropped below the break-even price. In about March 1998 the sale price dropped below the cost of production, thereby placing many producers in a loss situation. A very significant proportion of the industry would therefore appear to be at risk and is experiencing serious hardship.

- 92% of these respondents believe there has been a major change to the profitability within the industry in the last 18 months.

  This change in profitability is primarily attributed by 86% of these respondents to reduced saleyard prices, which in turn are thought to be occurring primarily because of competition from imports (92%). Only 25% of respondents refer to an increase in production as being responsible for the rapid deterioration in price.

- As further evidence of this, 95% of all respondents believe the importation of pig meat has had a negative impact on Australian producers. 10% feel it has some negative impact, 20% a very negative impact and 65% an extremely negative impact. It appears that this has something to do with what is perceived as Federal Government policy and legislation where 65% of respondents believe that Federal Government legislation has had a negative effect on the industry. This is primarily associated with the importation of pig meat.

- Charts 1 and 2 are interesting charts. They indicate that respondents contained in this sample have increased their production and are now, on average, working at maximum capacity.

  There is an important point to be made here. It is that the sample respondents have increased their production and sales, but there is no evidence to indicate that the production of pig meat overall within Australia has increased. For example, in 1996, 4.995 million pigs were slaughtered. If this is taken as a base year, the figure for 1997 is 4.672 million pigs, down 7% on the base year of 1996, and in 1998 it is 4.721 million, down 6% on the base year of 1996.

  What appears to be happening is that those who have not yet been forced out of the industry through low profitability and poor returns, have taken up the slack in production made available by those who have been forced out of the industry.

- Reference to Charts 33 and 34 will show that approximately 60% of respondents have either had to increase productivity to remain in business, or believe that they will have to continue to increase productivity to remain in business.

  To some degree this explains the reason for the increase in pig production by those who are still in the industry. The main reason they are increasing production is that by increasing sow numbers they can reduce their per unit cost and while the gross return on sales may well be the same as they enjoyed with smaller sow numbers, their margin per unit has been reduced. They feel that this is a direct result of the increased competition from imported pork.

  Chart 34 also indicates other areas where attempts are made to improve profitability and it should be noted that some of these involve capital expenditure. Indeed, the total capital employed by the sample respondents has been estimated to increase in the period 1996/97 to 1997/98 by 2.28%. While respondents are having difficulty raising capital from banks, many are cross-subsidising their pig production from other on-farm activities. In this way the necessary capital is being sourced, although at the expense of other more viable activities.

- As can be seen in the Introduction, some of the changes in a twelve month period that these sample producers are confronting would appear to be doing serious injury to the industry. For example, the estimated total profit being generated by these sample respondents has declined by 85%. At the same time, the estimated losses have increased by a staggering 995%.

  In the same twelve month period, indebtedness to financial organisations has increased by 13% and indebtedness to feed companies by 82%.

Some producers report that feed prices have remained relatively stable during this period in many parts of Australia. Otherwise even more cost pressure would have been put on producers.

There is evidence among these sample respondents that employment within the industry has decreased and it is expected that a further 7% labour shedding will occur in the next twelve month period. With increased sow numbers, the slack is being taken up by family members or producers ‘working longer hours’. This is referred to in various charts and tabulations.

- There are some variations according to the size of the pig operation. The larger operations derive a very significant proportion of their income from pig production and therefore find it difficult to withdraw from the industry. Smaller operations tend to engage in a greater diversity of on-farm activity and thus are in a slightly better position to hold on, or to leave the industry and thus redirect their activities to more profitable pursuits.

- The final series of charts in the report deal with how sample respondents perceive their future in the industry. There is a very strong negative attitude within the industry—an apprehension about future prospects. These attitudes are derived from awareness of what is happening to prices, awareness of what is happening to other producers, and the underlying theme always being that it has been the drop in productivity resulting primarily from the importation of pig meat, thus enabling buyers to drive the price down further, which has been the prime concern.
    - The majority of these respondents (53%) believe their production will remain static, whereas 23% believe their production will expand.
    - 35% are clear that they will remain in the industry and remain viable.
    - 30% are adopting a ‘wait and see’ attitude.
    - 17% are currently reviewing their future in the industry.
    - 9% believe they are now marginal (which perhaps relates to the 7% who have already quit).
    - 6% wish to get out of the industry at this moment—perhaps finding a buyer will be difficult.

- Those who believe they will remain viable, report that they are either trapped in the industry (20%) or have some ability to improve productivity (24%).

    Those who are adopting a ‘wait and see’ attitude indicate they are uncertain about the industry’s future (36%) and also, 23% refer to their low profitability.

    Those who are reviewing their future in the industry are reasonably evenly divided between uncertainty with regard to the future (24%), lack of government support (21%) and low profitability (18%).

    50% of those who believe they are now marginal, are so because of the low profitability.

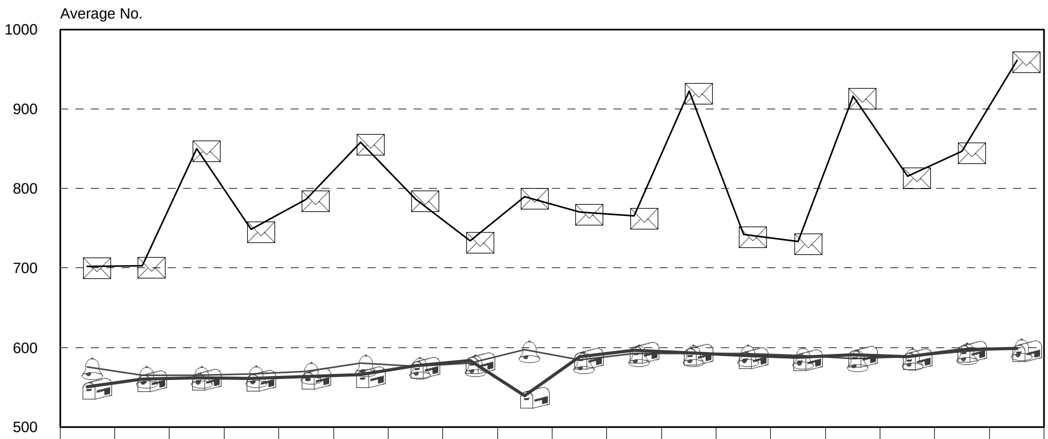
    45% of those who ‘want out now’ do so because of low profitability, and 27% are disenchanted with working the long unrewarding and unprofitable hours necessary for them to carry on a productive enterprise.

4.0 REPORT

★ Chart 1 below shows the ***number of pigs sold by responding producers***. This is ***compared with the average number of sows held and the maximum carrying capacity of the operation*** .

Seasonal factors are shown.

Chart 1 Sows, Capacity and Sales



	Jan 97	F	M	A	M	J	Ju	A	S	O	N	D	J98	F	M	A	M	J
Av. No of Sows	550.7	560.6	561.8	561	563.8	565.7	577.2	583.3	539.6	588.6	596.3	593.2	589.7	587.2	591.2	588	597.2	598.7
Max. Carry Capacity	575.7	565.1	565	566.4	570.1	580.1	576.2	580	597.4	584	592.4	592.5	592.3	589.8	586.2	588.1	595.1	600
Pigs Sold	702.1	702.7	850.1	748.4	786.7	857.9	786.8	734.2	789.7	770.1	765.4	922.5	741.8	733	916.1	815.5	847.3	961.3

MONTH

SOWS, CAPACITY, SOLD
Av. No of Sows Max. Carry Capacity Pigs Sold

It can be seen that the average number of pigs sold is trending upward. This does not necessarily reflect an overall increase in total industry production. It does reflect an increase among operations included in the sample.

Many producers have increased their output and sow numbers to distribute costs over a greater number of sales thus endeavouring to maintain gross returns but on a smaller margin.

This has been made possible because many producers have left the industry. The reduction in their sales has been taken up by those who remain in the industry and who are in a position to increase production.

Charts 33 and 34 (see page 30) provide evidence of respondents increasing productivity to reduce production costs. 58% have had to increase productivity to stay in business. 48% are achieving this by increasing their output (increasing sow numbers, increasing weanings per litter, or increasing sale weights). Chart 39 (see page 33) also shows that 23% plan on expanding their operation in the future to remain viable.

This increase in output is considered necessary in such operations to enable costs to be distributed over a greater number of units and so enable the operation to remain viable.

As respondents noted on their returns:

> *"... need to lower cost of production by increasing output and compete with imports ..."*
>
> *"... if I don't expand I will be forced out. Have to get bigger. This should lead to greater efficiencies and maintain income …"*
>
> *"... to stay viable, I will have to expand, otherwise quit, but at my age it is hard to find another option …"*
>
> *"... the only way we can survive the imports is by working really hard and spreading our costs over more pigs …"*
>
> *"... to compete with imports we have to increase sow numbers to maximise production with the same labour …"*

The above are typical comments. As will be seen, the majority believes the decline in sale price is the result of imports and as a consequence they must spread costs over the increased production. This opportunity is available because of the drop in production by those already forced out of the industry.

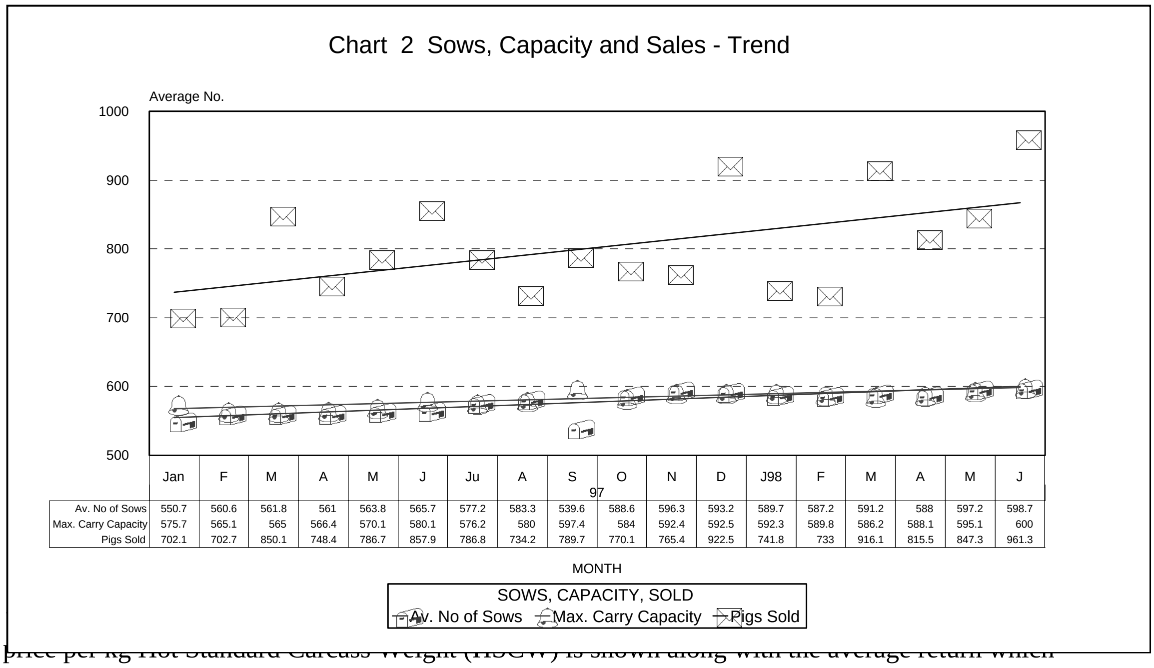
It is for this reason that total industry output has not varied significantly, as production data included elsewhere in the submission demonstrates.

For example, the total slaughterings for 1995/96/97 are as follows:

1995:	4,995,500
1996:	4,671,700
1997:	4,721,500

(Source: ABS)

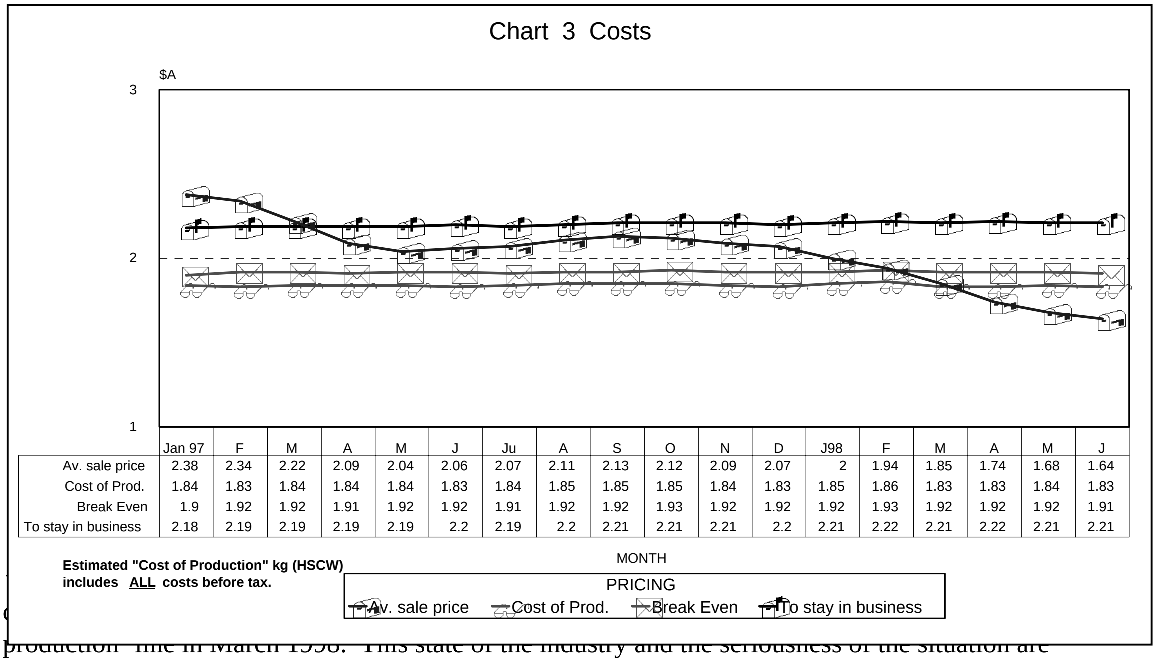
Chart 2 also confirms this trend, as it can be seen that the average number of sows is moving toward the maximum carrying capacity of operations surveyed.



	Jan 97	F	M	A	M	J	Ju	A	S	O	N	D	J98	F	M	A	M	J
Av. No of Sows	550.7	560.6	561.8	561	563.8	565.7	577.2	583.3	539.6	588.6	596.3	593.2	589.7	587.2	591.2	588	597.2	598.7
Max. Carry Capacity	575.7	565.1	565	566.4	570.1	580.1	576.2	580	597.4	584	592.4	592.5	592.3	589.8	586.2	588.1	595.1	600
Pigs Sold	702.1	702.7	850.1	748.4	786.7	857.9	786.8	734.2	789.7	770.1	765.4	922.5	741.8	733	916.1	815.5	847.3	961.3

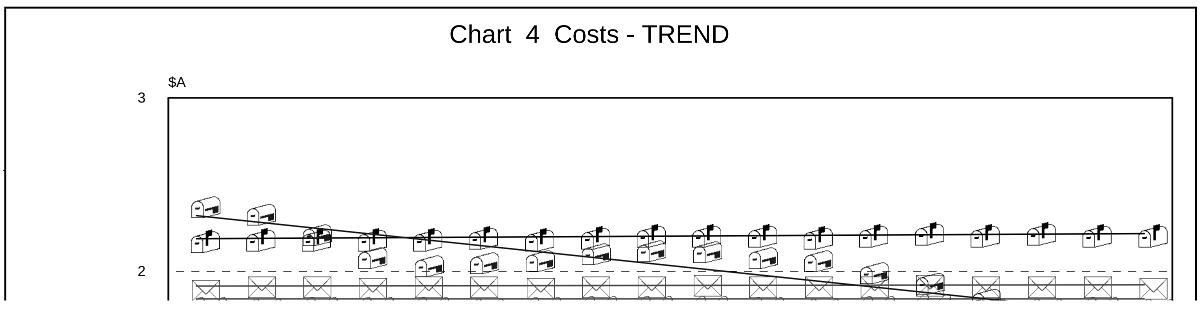
price per kg Hot Standard Carcass Weight (HSCW) is shown along with the average return which operators believe is necessary to stay in business, the average break even price, and average cost of production.

All are expressed in HSCW. Respondents were asked to include in their cost of production all costs before tax.

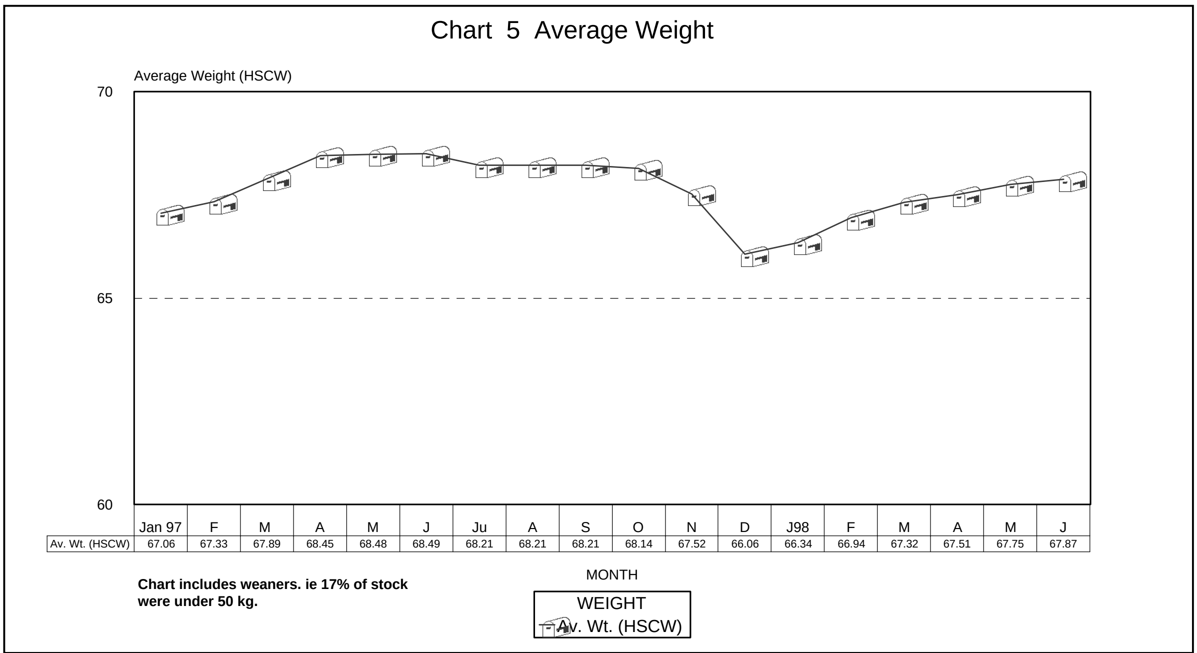


	Jan 97	F	M	A	M	J	Ju	A	S	O	N	D	J98	F	M	A	M	J
Av. sale price	2.38	2.34	2.22	2.09	2.04	2.06	2.07	2.11	2.13	2.12	2.09	2.07	2	1.94	1.85	1.74	1.68	1.64
Cost of Prod.	1.84	1.83	1.84	1.84	1.84	1.83	1.84	1.85	1.85	1.85	1.84	1.83	1.85	1.86	1.83	1.83	1.84	1.83
Break Even	1.9	1.92	1.92	1.91	1.92	1.92	1.91	1.92	1.92	1.93	1.92	1.92	1.92	1.93	1.92	1.92	1.92	1.91
To stay in business	2.18	2.19	2.19	2.19	2.19	2.2	2.19	2.2	2.21	2.21	2.21	2.2	2.21	2.22	2.21	2.22	2.21	2.21

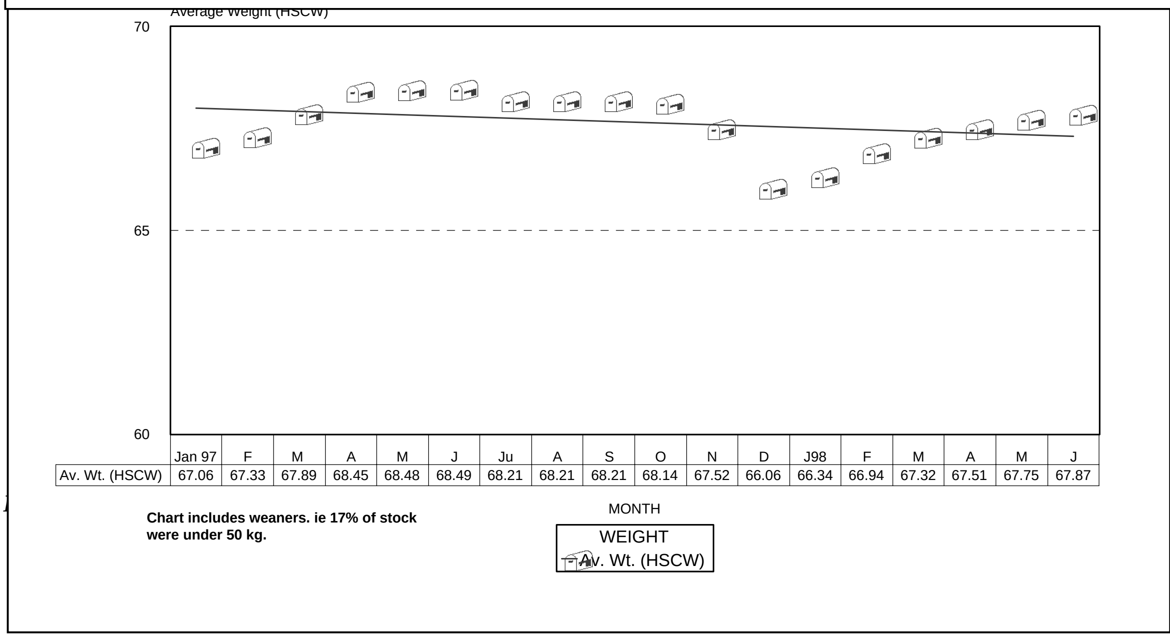
production" line in March 1998. This state of the industry and the seriousness of the situation are confirmed in later charts relating to various financial matters.



★ Charts 5 and 6 show the ***average weight of pigs sold in HSCW***. While operations selling weaners at say 21 days have been excluded (see Introduction), these charts nevertheless still include some stock not sold for slaughter. This explains the slight discrepancy between slaughter weights as shown on ABS data and the sale weight of pigs from this sample.



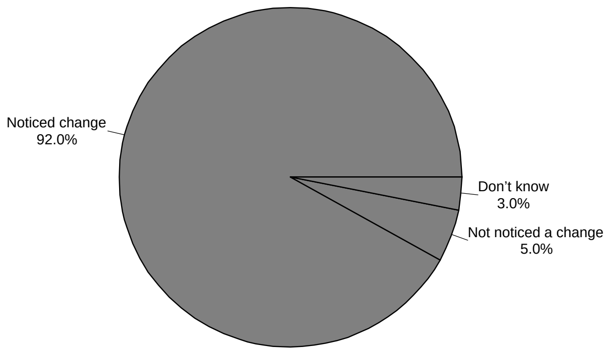
	Jan 97	F	M	A	M	J	Ju	A	S	O	N	D	J98	F	M	A	M	J
Av. Wt. (HSCW)	67.06	67.33	67.89	68.45	68.48	68.49	68.21	68.21	68.21	68.14	67.52	66.06	66.34	66.94	67.32	67.51	67.75	67.87



	Jan 97	F	M	A	M	J	Ju	A	S	O	N	D	J98	F	M	A	M	J
Av. Wt. (HSCW)	67.06	67.33	67.89	68.45	68.48	68.49	68.21	68.21	68.21	68.14	67.52	66.06	66.34	66.94	67.32	67.51	67.75	67.87

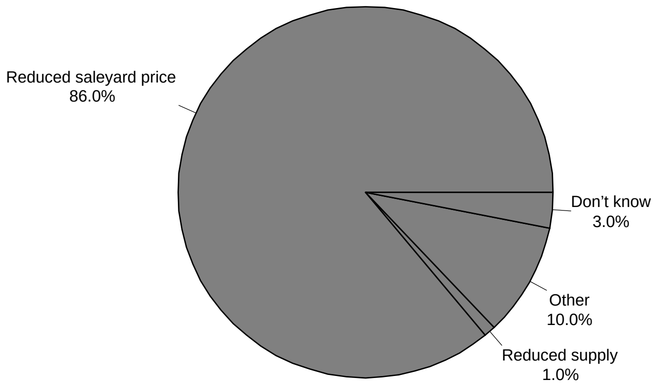
★ Respondents were asked ***whether they had noticed any change in profit-ability over the past 18 months***. Bearing in mind the above data, it is not surprising that, as shown on Chart 7, 92% indicate they have noticed a change.

Chart 7 Whether Noticed Any Change in Profitability in Past 18 Months



★ Respondents were asked ***what they consider to be the major cause of the change in profitability*** (Chart 8). Bearing in mind Chart 1, it is not surprising that the major cause is seen as resulting from a reduction in saleyard prices.

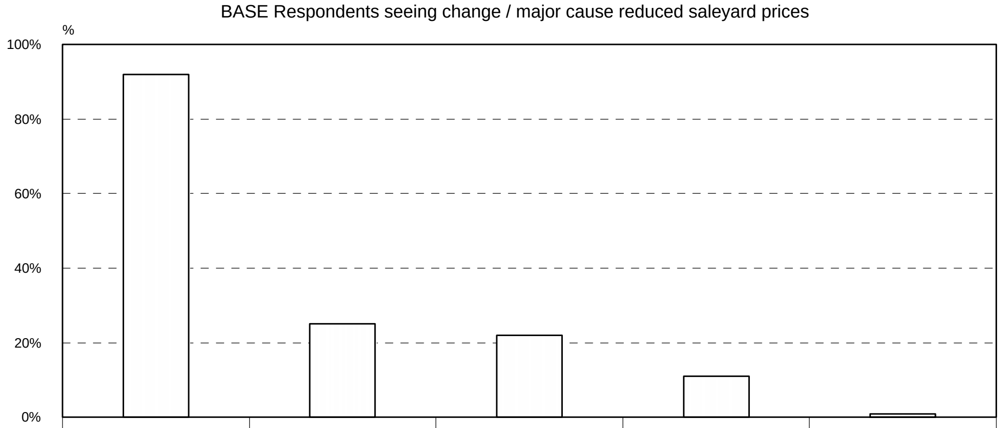
Chart 8 Single Major Cause of Change in Profitability in Past 18 months



★ Having established the major cause as being a drop in saleyard prices, the next question related to ***why this drop occurred***. As Chart 9 shows, respondents believe the prime cause is 'competition from imports' (92%). This is followed by 25% of the industry seeing 'increased production' as a contributory cause.

Chart 9 Reasons For Reduction in Saleyard Prices

BASE Respondents seeing change / major cause reduced saleyard prices



	Competition from imports	Increased production	Decreased demand	Other	No Idea
%	92%	25%	22%	11%	1%

%

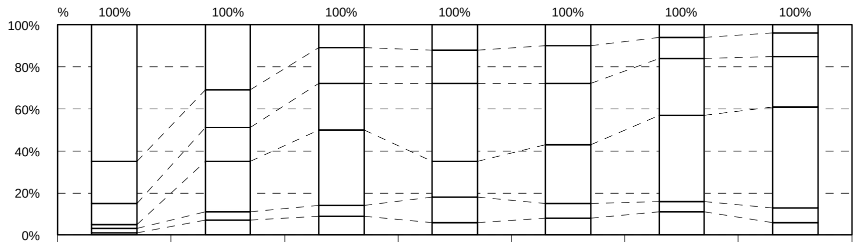
PERCENT
%

★ Respondents were given a ***closed list of factors that it was felt might impact on their industry*** (Question 16) ***and were asked to rate on a seven point scale whether their impact was positive or negative***.

The results are shown in Charts 10 and 11. 95% of respondents believe the importation of pig meat is having a negative impact on the industry.

This is followed by the negative effects of Federal Government legislation (65%), input costs (65%), environmental requirements (58%), State Government legislation (50%), labour market requirements (43%) and animal welfare (39%).

Chart 10 Perceived Impact of Various Factors on Operation’s Viability

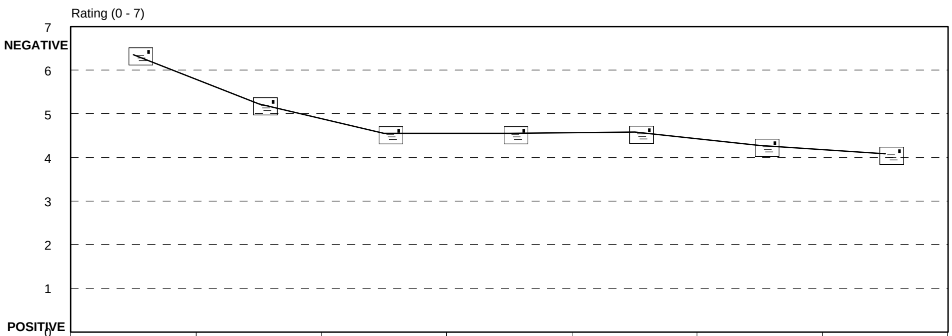


	Imported pig meat	Federal Govt. Leg.	State Govt. Leg.	Input costs eg feed	Environmental require.	Labour market requirements	Animal welfare
Extremely negative	65%	31%	11%	12%	10%	6%	4%
Very negative	20%	18%	17%	16%	18%	10%	11%
Some negative	10%	16%	22%	37%	29%	27%	24%
No impact	2%	24%	36%	17%	28%	41%	48%
Positive	2%	4%	5%	12%	7%	5%	7%
Don’t know	1%	7%	9%	6%	8%	11%	6%

FACTOR

IMPACT
Don’t know, Positive, No impact, Some negative, Very negative, Extremely negative

Chart 11 Impact of various Factors on Viability of Pig Operation



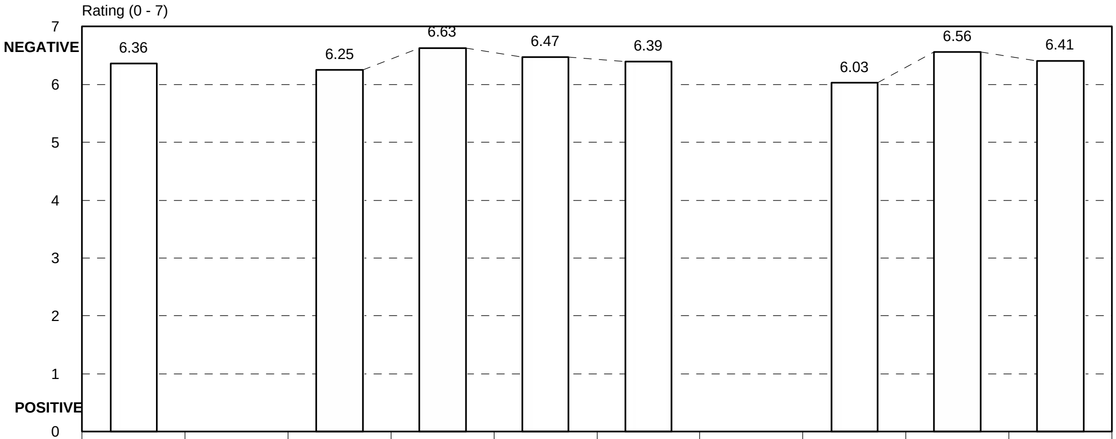
	Imported pig meat	Federal Govt. Leg.	State Govt. Leg.	Input costs eg feed	Environmental require.	Labour market requirements	Animal welfare
Rating	6.36	5.22	4.56	4.56	4.58	4.27	4.09

FACTOR

RATING
Rating

★ The following charts (Charts 12 to 18) ***analyse each of the factors by the number of sows held and the percentage of income derived from pig production*** . Generally, there is not a great variation across any of the groups. For further details refer to the accompanying tables.

Chart 12 Impact of **Imported Pig Meat** on Viability of Pig Operation
by Number of Sows & % of Income from Operation

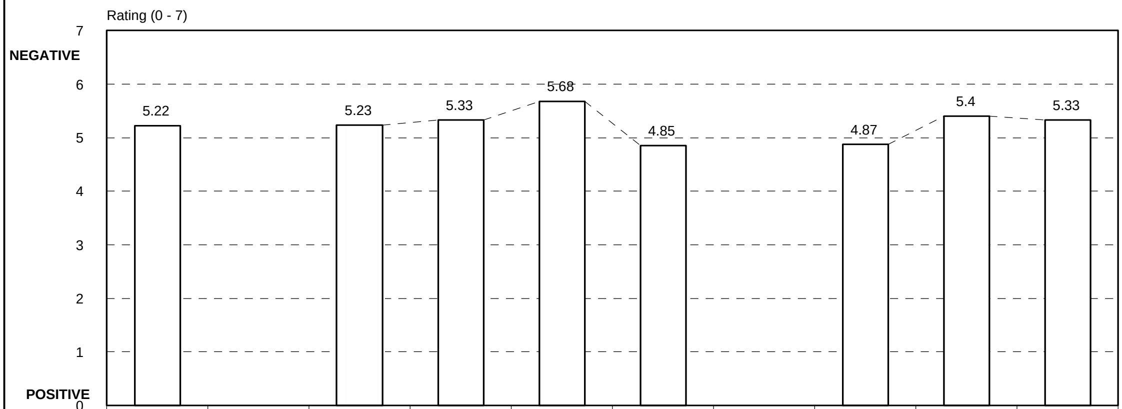


	Total		< 100	101 - 200	201 - 400	> 400		50%	51% - 90%	>90%
Rating	6.36		6.25	6.63	6.47	6.39		6.03	6.56	6.41

Number of Sows & % of Income

RATING
Rating

Chart 13 Impact of **Federal Government Legislation** on Viability of Pig Operation
by Number of Sows & % of Income from Operation

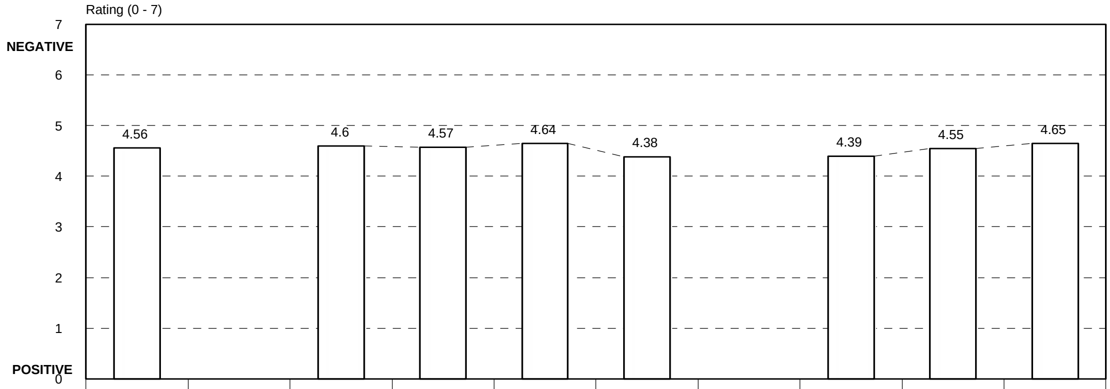


	Total		< 100	101 - 200	201 - 400	> 400		50%	51% - 90%	>90%
Rating	5.22		5.23	5.33	5.68	4.85		4.87	5.4	5.33

Number of Sows & % of Income

RATING
Rating

Chart 14 Impact of **State Government Legislation** on Viability of Pig Operation
by Number of Sows & % of Income from Operation

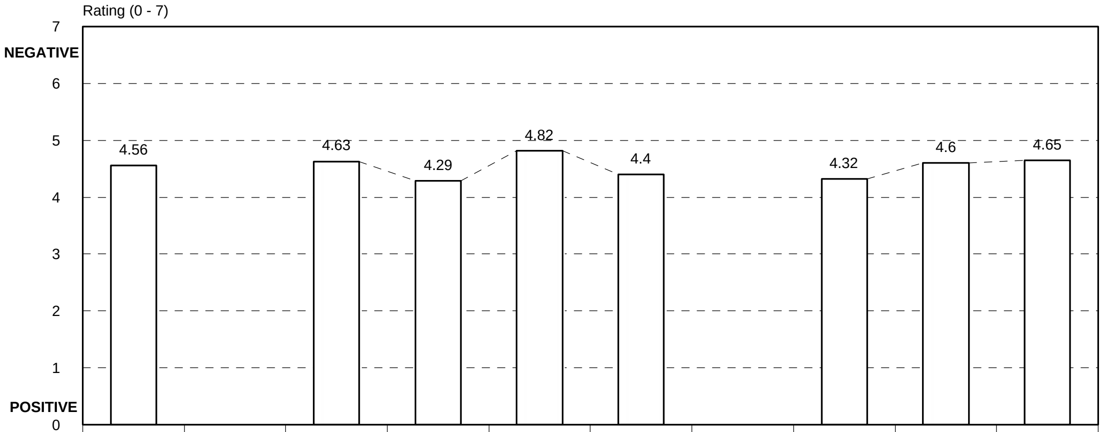


	Total		< 100	101 - 200	201 - 400	> 400		50%	51% - 90%	>90%
Rating	4.56		4.6	4.57	4.64	4.38		4.39	4.55	4.65

Number of Sows & % of Income

RATING
Rating

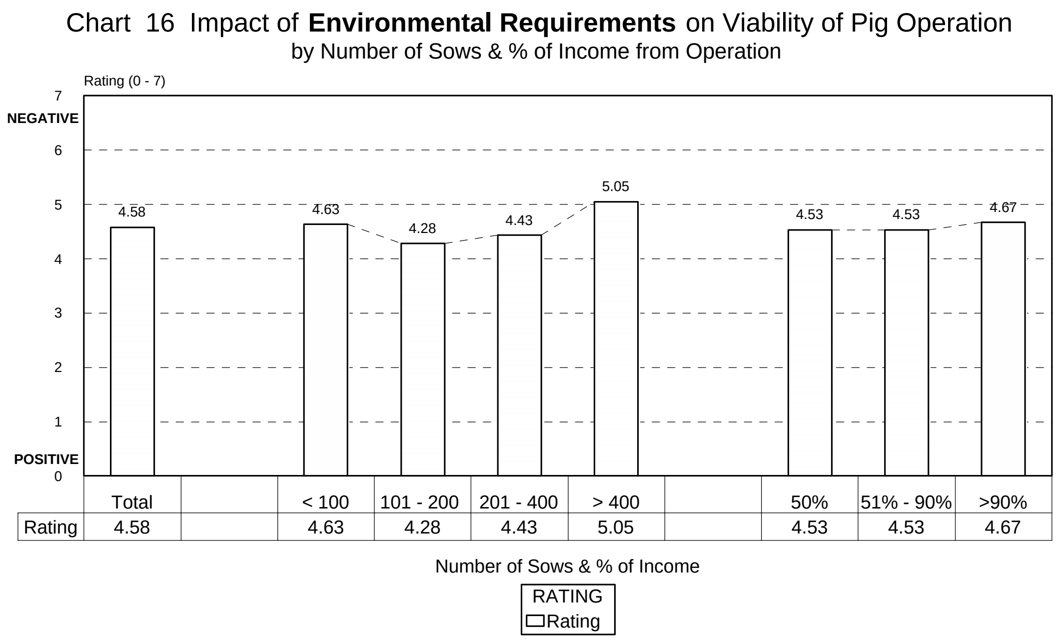
Chart 15 Impact of **Input Costs eg Feed** on Viability of Pig Operation
by Number of Sows & % of Income from Operation



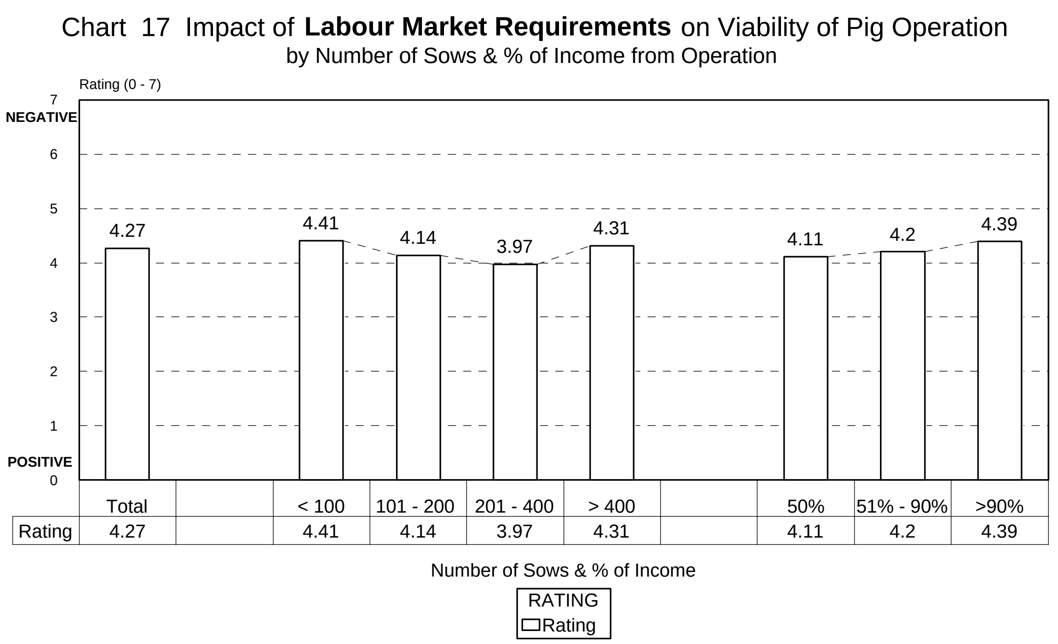
	Total		< 100	101 - 200	201 - 400	> 400		50%	51% - 90%	>90%
Rating	4.56		4.63	4.29	4.82	4.4		4.32	4.6	4.65

Number of Sows & % of Income

RATING
Rating



	Total		< 100	101 - 200	201 - 400	> 400		50%	51% - 90%	>90%
Rating	4.58		4.63	4.28	4.43	5.05		4.53	4.53	4.67



	Total		< 100	101 - 200	201 - 400	> 400		50%	51% - 90%	>90%
Rating	4.27		4.41	4.14	3.97	4.31		4.11	4.2	4.39

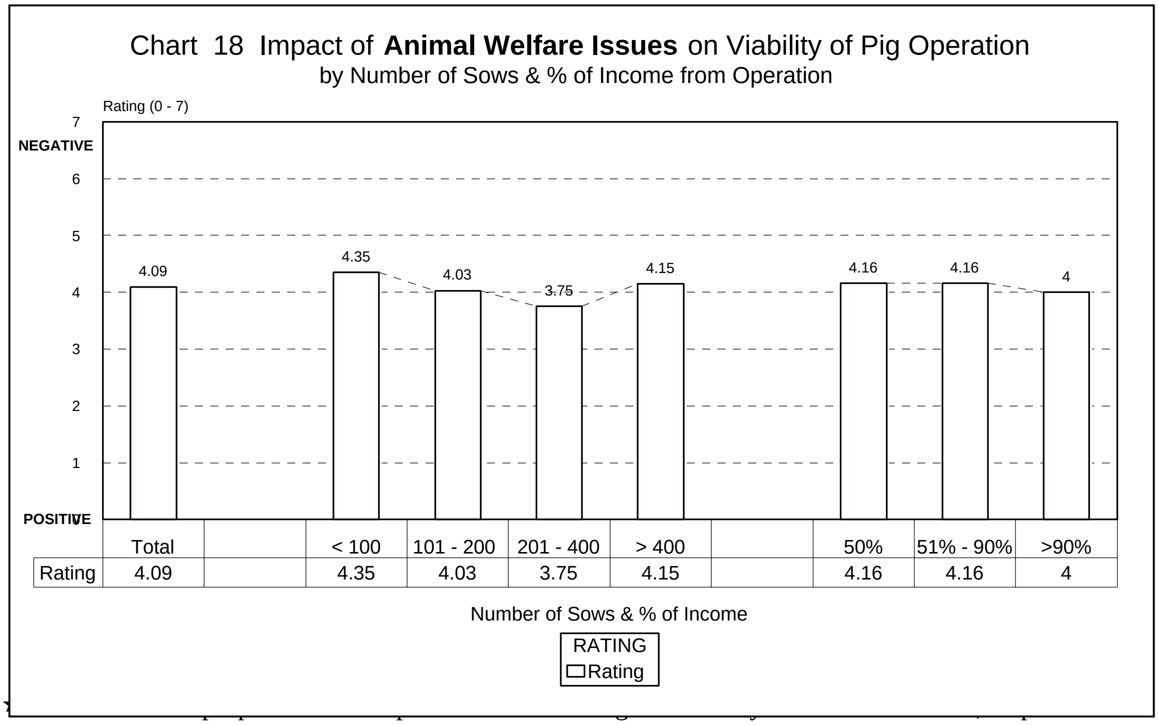


Chart 18 Impact of **Animal Welfare Issues** on Viability of Pig Operation
by Number of Sows & % of Income from Operation

	Total		< 100	101 - 200	201 - 400	> 400		50%	51% - 90%	>90%
Rating	4.09		4.35	4.03	3.75	4.15		4.16	4.16	4

were asked ***what other difficulties they had experienced since January 1997*** (Question 30). The results are shown in Chart 19 below.

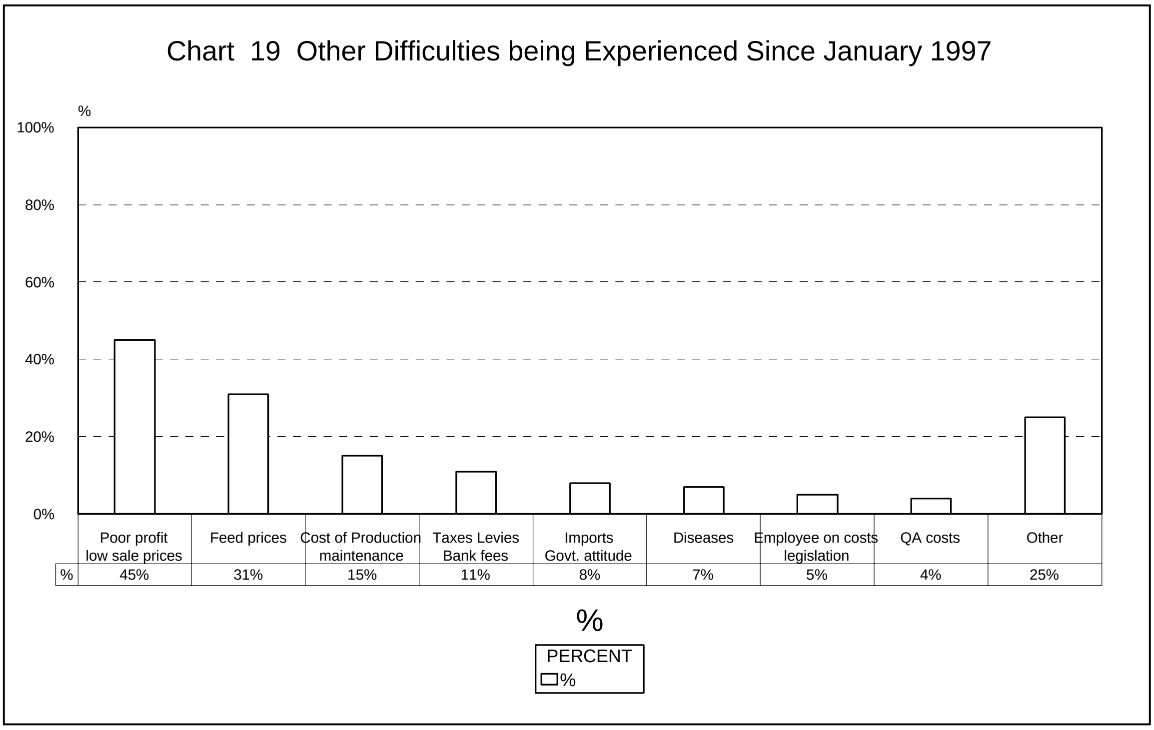


Chart 19 Other Difficulties being Experienced Since January 1997

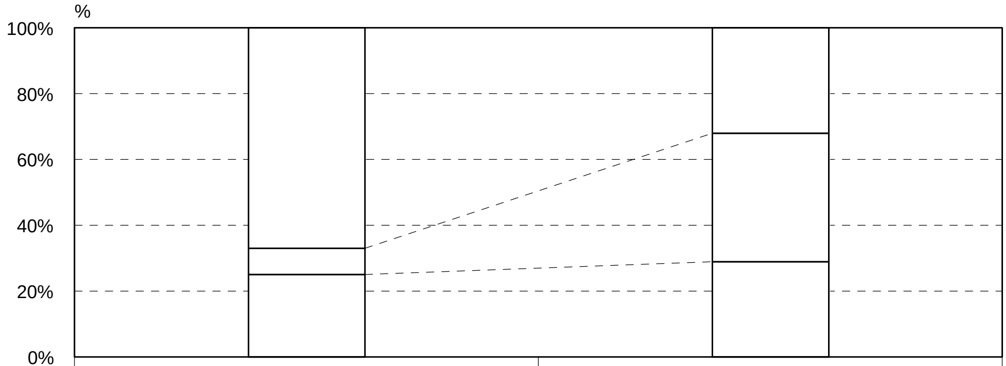
	Poor profit low sale prices	Feed prices	Cost of Production maintenance	Taxes Levies Bank fees	Imports Govt. attitude	Diseases	Employee on costs legislation	QA costs	Other
%	45%	31%	15%	11%	8%	7%	5%	4%	25%

★ Respondents were asked about ***their situation with regard to profit or loss between the years of 1996/1997 and their estimate for 1997/1998*** (Questions 2 and 3). The results are in Chart 20 below. The reversal between these two periods is dramatic in that profits have declined by 85% and losses increased by 995%.

Chart 20 Estimated Profit / Loss

BASED on those who know Profit / Loss for **1996 / 1997**
TOTAL Profits for all respondents $15,209,198
Average Profit $115,221
TOTAL Losses for all respondents $825,726
Average Loss $55,048

BASED on those estimating a Profit / Loss for 1997 **/ 1998**
TOTAL Profits for all respondents $2,224,410
Average Profit $35,276
TOTAL Losses for all respondents $9,038,445
Average Loss $117,382



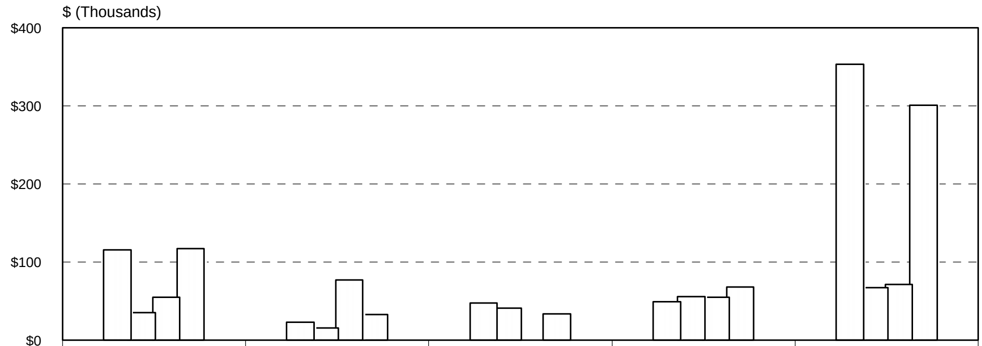
	1996/1997	Est 1997 / 1998
Profit	67%	32%
Loss	8%	39%
Don't know	25%	29%

PERIOD

PROFIT / LOSS
Don't know Loss Profit

Australia September 1998 Stollznow Research

Chart 21 **Average** Profit or Loss Comparison by Number of Sows



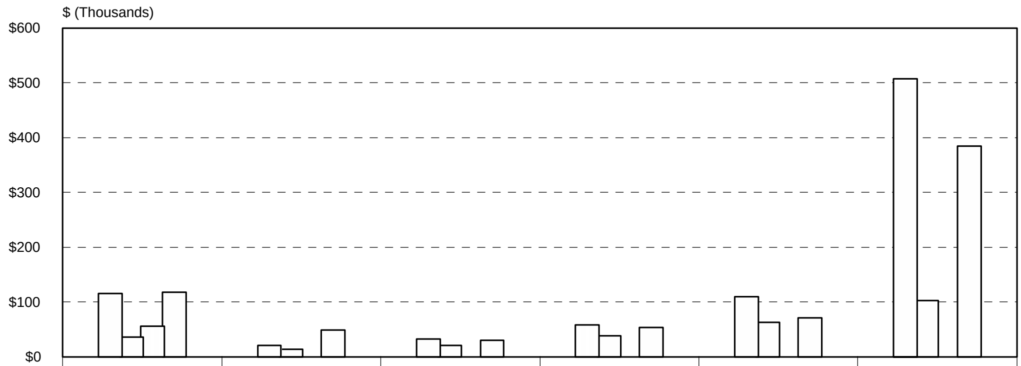
	Total Respondents	< 100	101 - 200	201 - 400	>400
Profit 96 / 97	$115.221	$23.176	$47.86	$48.92	$353.395
Profit 97 / 98	$35.276	$15.858	$40.866	$55.364	$67.45
Loss 96 / 97	$55.048	$77		$54.594	$71.638
Loss 97 / 98	$117.382	$32.437	$33.646	$67.927	$300.34

NUMBER OF SOWS

TIME PERIOD
Profit 96 / 97 Profit 97 / 98 Loss 96 / 97 Loss 97 / 98

Chart 22 **Average** Profit or Loss Comparison by Number of Pigs Sold

NOTE Base for LOSS in 1996 / 1997 too small to include



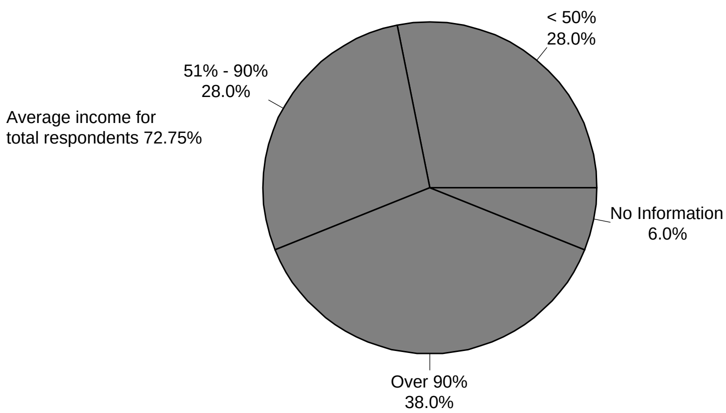
	Total Respondents	0 - 111	101 - 200	201 - 400	401 - 1000	> 1000
Profit 96 / 97	$115.221	$20.307	$31.668	$58.041	$109.15	$506.982
Profit 97 / 98	$35.276	$12.853	$20.88	$38.261	$62.026	$102.881
Loss 96 / 97	$55.048					
Loss 97 / 98	$117.382	$48.5	$29.9	$52.826	$70.193	$383.774

NUMBER OF SOWS

TIME PERIOD
Profit 96 / 97 Profit 97 / 98 Loss 96 / 97 Loss 97 / 98

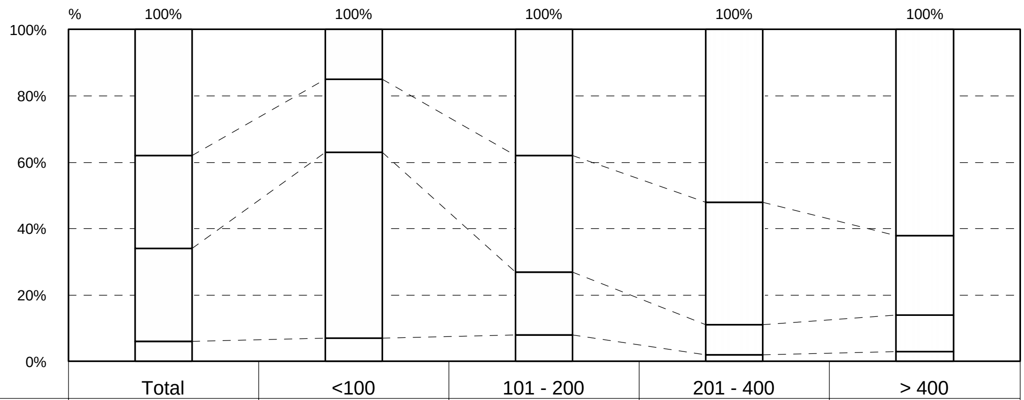
★ To obtain a clear idea of how important the situation is to the operation, respondents were asked about the ***proportion of their income derived from pig production*** (Question 7). The results are in Charts 23, 24 and 25 below.

Chart 23 Percentage of Income Derived From Pig Production



★ Chart 24 shows ***the information according to the number of sows held***. As might be expected, the larger the piggery, the greater the proportion of income derived from the pig operation.

Chart 24 Income Derived From Pig Operation by Number of Sows

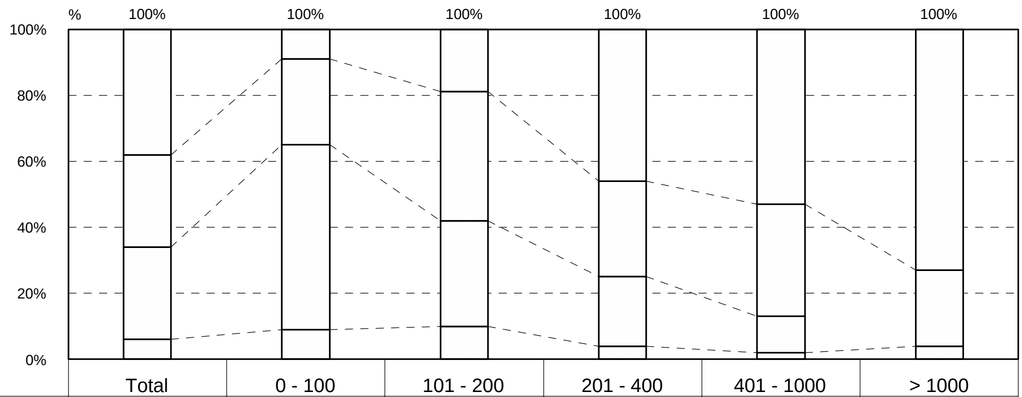


	Total	<100	101 - 200	201 - 400	> 400
> 90%	38%	15%	38%	52%	62%
51% - 90%	28%	22%	35%	37%	24%
< 50%	28%	56%	19%	9%	11%
No Information	6%	7%	8%	2%	3%

NUMBER OF SOWS

PERCENTAGE
No Information < 50% 51% - 90% > 90%

Chart 25 Income Derived From Pig Operation by Pigs Sold



	Total	0 - 100	101 - 200	201 - 400	401 - 1000	> 1000
> 90%	38%	9%	19%	46%	53%	73%
51% - 90%	28%	26%	39%	29%	34%	23%
< 50%	28%	56%	32%	21%	11%	
No Information	6%	9%	10%	4%	2%	4%

NUMBER OF SOWS

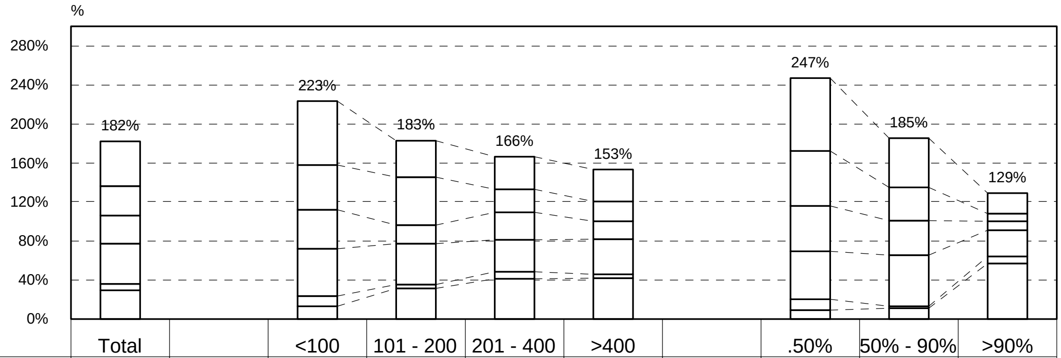
PERCENTAGE
No Information < 50% 51% - 90% > 90%

★ Because not all pig farmers derive their total income from pig farming alone, respondents were asked about ***other on-farm activities*** they are involved in (Question 31).

As Chart 26 illustrates, the larger the pig operation the more dependent the producer is on pig production.

The average respondent is involved in 1.82 other on-farm activities. The smaller the producer the more diverse the operation. As a later chart will show, this has enabled some to remain in the industry by subsidising their now unprofitable pig operation by cross-subsidisation.

Chart 26 Other On-farm Activities Involved in
by Number of Sows & % of Income From Pigs



	Total		<100	101 - 200	201 - 400	>400		.50%	50% - 90%	>90%
Cropping	46%		65%	38%	33%	33%		75%	50%	21%
Sheep - Wool	30%		46%	49%	24%	20%		56%	34%	8%
Sheep - meat	29%		40%	19%	28%	18%		47%	36%	9%
Beef cattle	41%		49%	42%	33%	36%		49%	52%	27%
Dairy - cattle	7%		10%	4%	7%	4%		11%	2%	7%
None of these	29%		13%	31%	41%	42%		9%	11%	57%

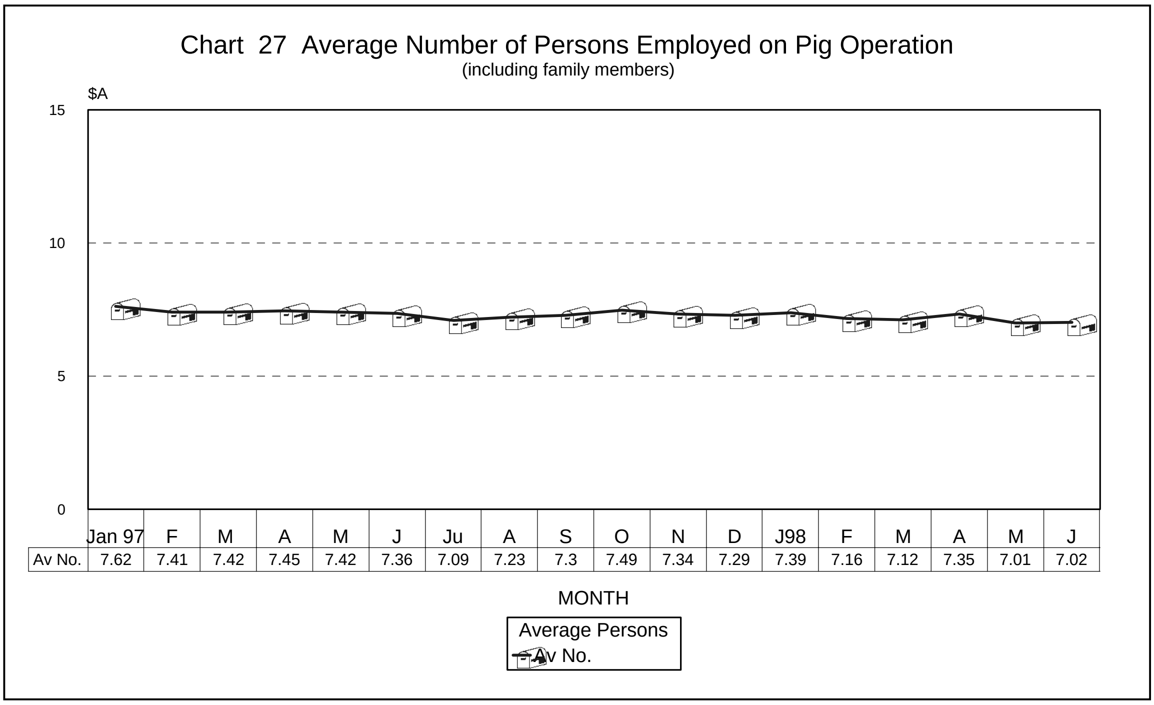
NUMBER OF SOWS & % Of INCOME FROM PIGS

ACTIVITY
☐None of these ☐Dairy - cattle ☐Beef cattle ☐Sheep - meat ☐Sheep - Wool ☐Cropping

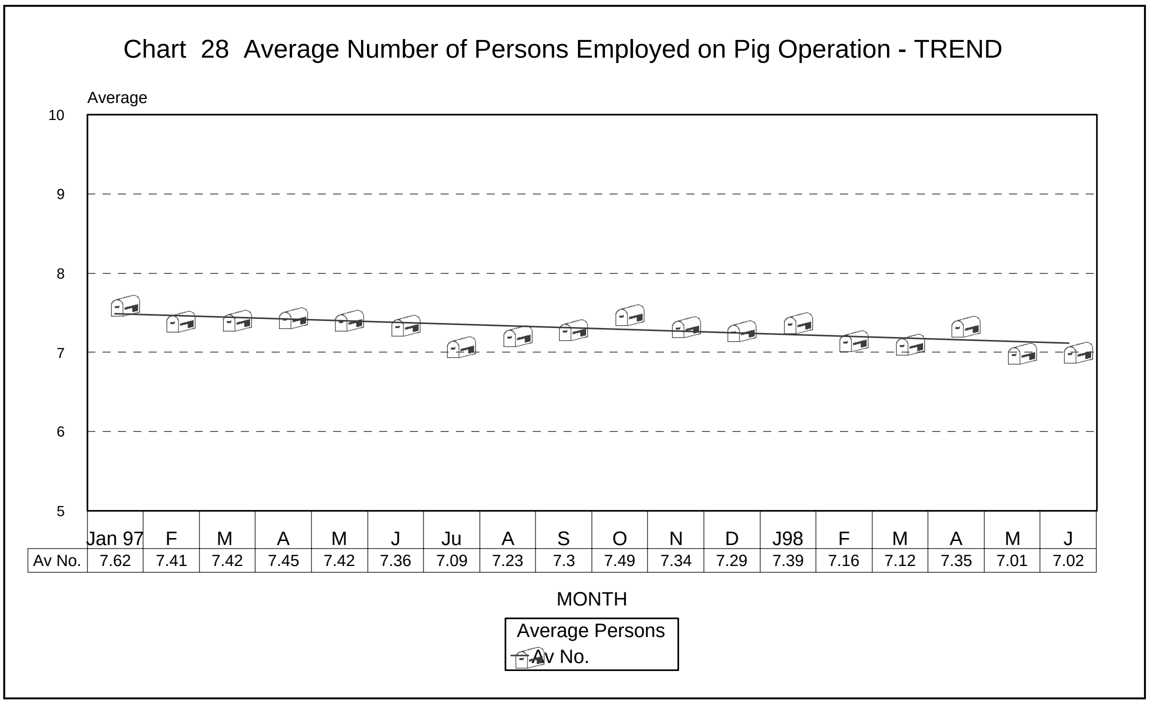
★ Respondents were then asked about the ***number of persons, including family members, employed in their operation on a monthly basis over the period under review***—January 1997 to June 1998.

Chart 27 shows the ***seasonal variation*** while Chart 28 shows the ***information as a trend line***.

Employment is decreasing as labour shedding occurs. This is being done in order to reduce costs to meet competition which respondents see as coming from imports.

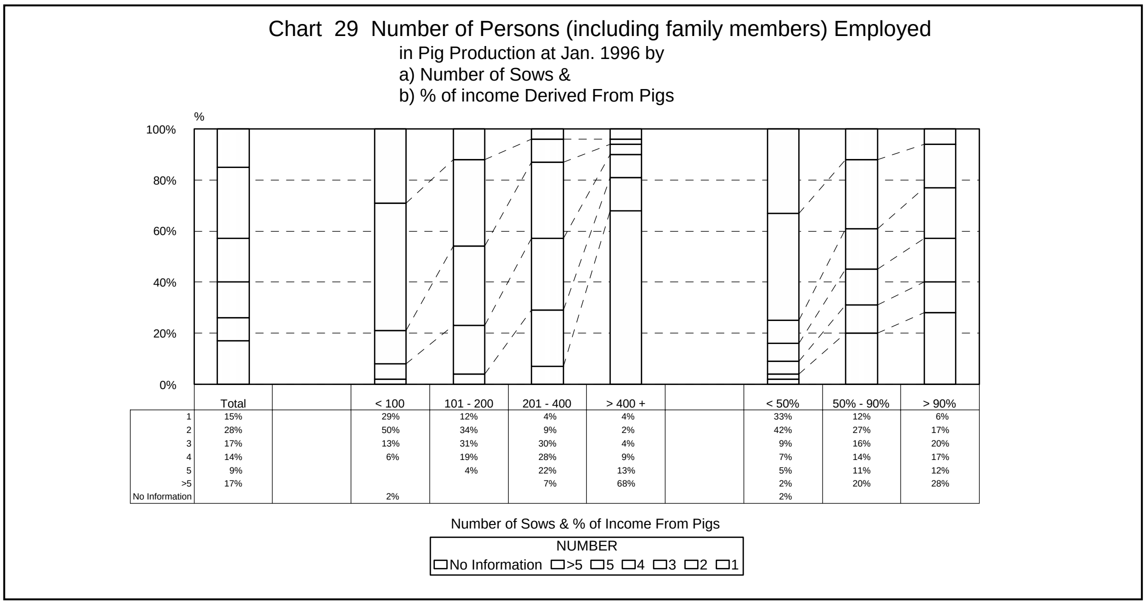


	Jan 97	F	M	A	M	J	Ju	A	S	O	N	D	J98	F	M	A	M	J
Av No.	7.62	7.41	7.42	7.45	7.42	7.36	7.09	7.23	7.3	7.49	7.34	7.29	7.39	7.16	7.12	7.35	7.01	7.02



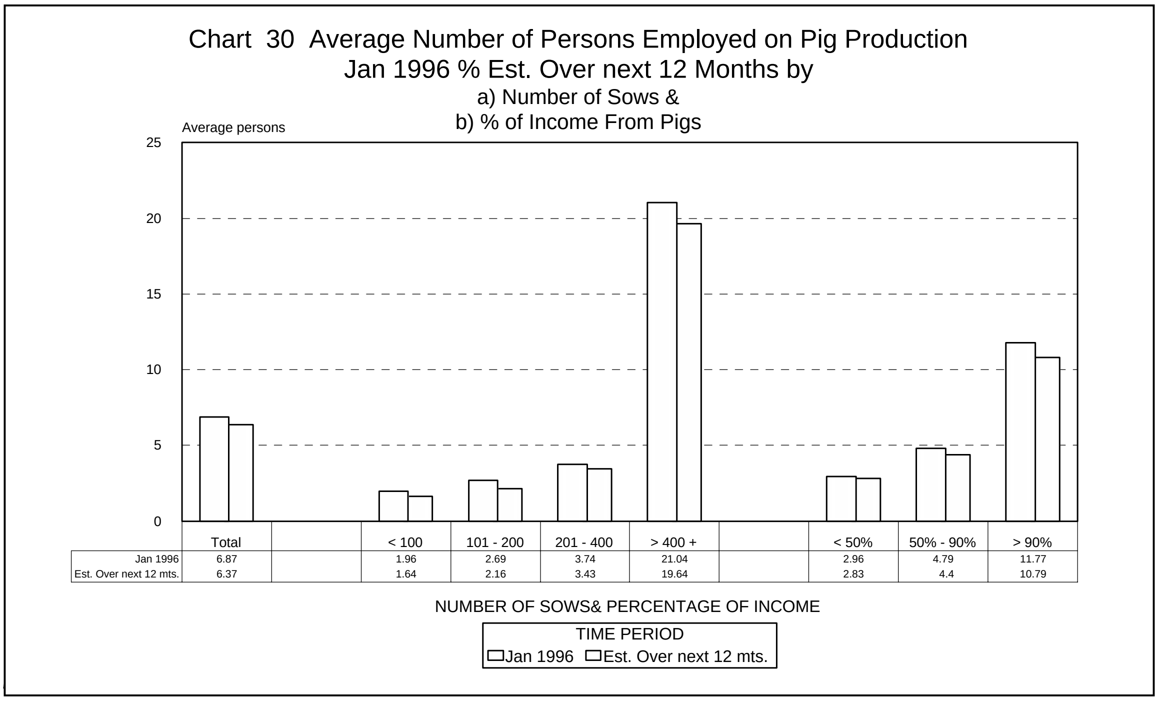
	Jan 97	F	M	A	M	J	Ju	A	S	O	N	D	J98	F	M	A	M	J
Av No.	7.62	7.41	7.42	7.45	7.42	7.36	7.09	7.23	7.3	7.49	7.34	7.29	7.39	7.16	7.12	7.35	7.01	7.02

★ In order to throw further light on employment in the pig industry, respondents were asked to indicate ***how many persons were employed in their pig operation as at January 1996*** (Question 10). The results are in Chart 29 below. The level of employment varies with the size of the operation.



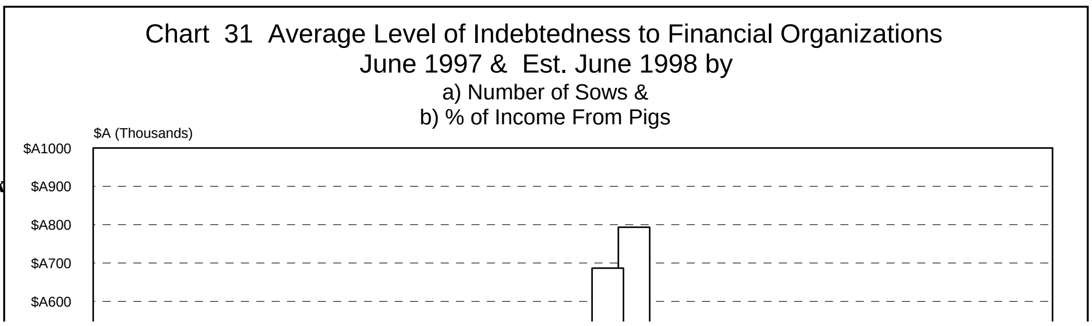
	Total		< 100	101 - 200	201 - 400	> 400 +		< 50%	50% - 90%	> 90%
1	15%		29%	12%	4%	4%		33%	12%	6%
2	28%		50%	34%	9%	2%		42%	27%	17%
3	17%		13%	31%	30%	4%		9%	16%	20%
4	14%		6%	19%	28%	9%		7%	14%	17%
5	9%			4%	22%	13%		5%	11%	12%
>5	17%				7%	68%		2%	20%	28%
No Information			2%					2%		

production. The chart covers the situation as at January 1996 and compares this with the respondents' estimate twelve months out from the time of this survey. The resulting chart is consistent with Charts 27 and 28 where there are clear indications of a reduction in employment in the pig industry.



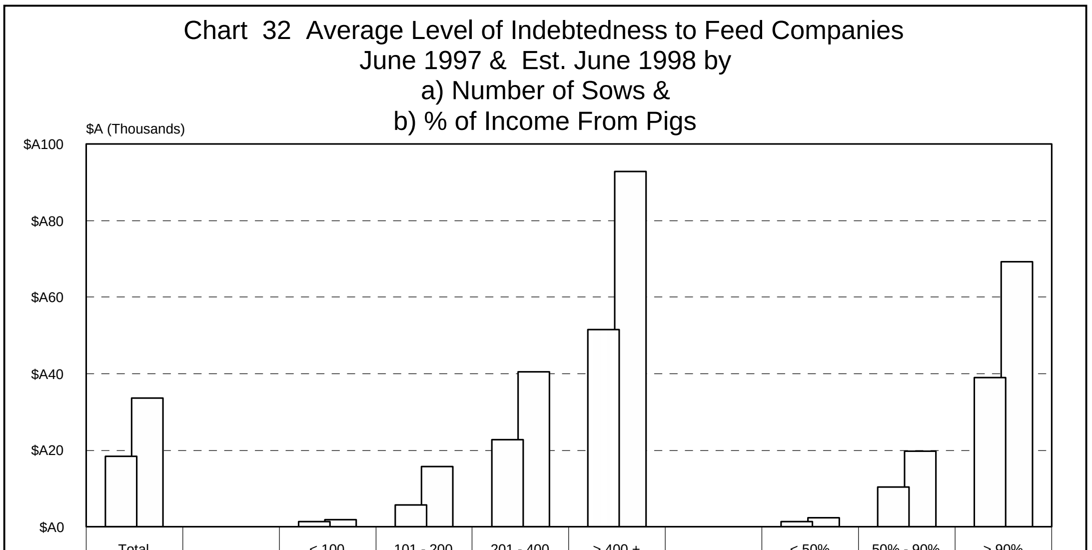
	Total		< 100	101 - 200	201 - 400	> 400 +		< 50%	50% - 90%	> 90%
Jan 1996	6.87		1.96	2.69	3.74	21.04		2.96	4.79	11.77
Est. Over next 12 mts.	6.37		1.64	2.16	3.43	19.64		2.83	4.4	10.79

the Introduction. Chart 31 deals with the ***average indebtedness to financial organisations***, where it can be seen that there has been a significant increase in average debt in the past twelve months.



Pork

Chart 32 deals with the ***level of average indebtedness to feed companies*** during the same period. Here too the level of debt has escalated very significantly.

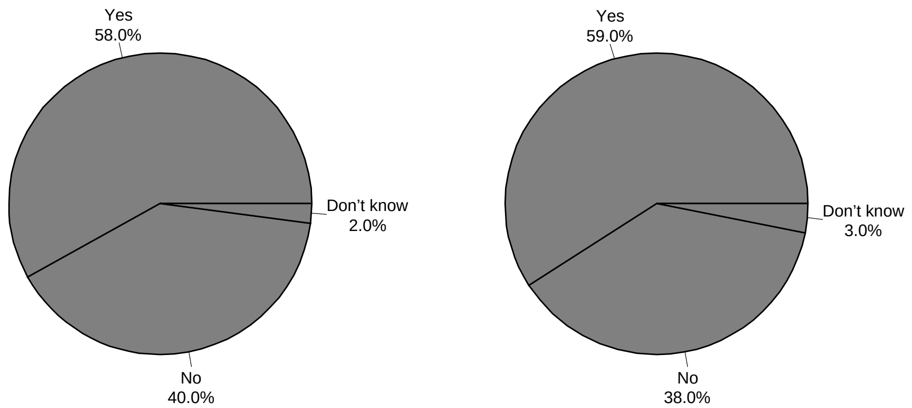


	Total		< 100	101 - 200	201 - 400	> 400 +		< 50%	50% - 90%	> 90%
Jun 1997	$A18.48		$A1.426	$A5.661	$A22.824	$A51.552		$A1.3	$A10.377	$A38.952
June 1998	$A33.685		$A1.919	$A15.763	$A40.439	$A92.917		$A2.391	$A19.811	$A69.225

★ Questions 12 and 14 required respondents to indicate ***whether or not they had to increase productivity to stay in business to date, and whether they would have to continue to increase productivity in the future to remain in business***.

Chart 33 shows the results. 58% of respondents claim to have had to increase their productivity to stay in business and 59% state they would have to continue to find additional productivity increases.

Chart 33 Whether Have Had to Increase Productivity to Stay in Business



★ Respondents were asked ***how they had, or intended to achieve these increases*** (Questions 13 and 15). The approaches they have adopted or intend to adopt are in Table 34 below.

Table 34 Methods Used to Stay in Business & Will be Used to Continue in Business

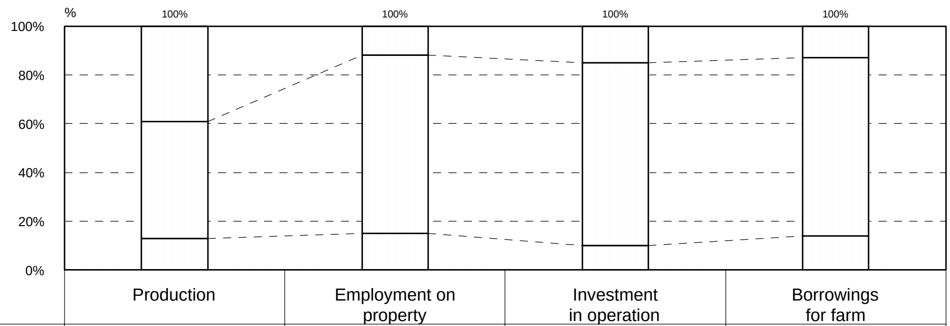
BASED on respondents intending to take actions to increase productivity in each period

METHODS	Used to date	Will be used to continue
	%	%
Increase sow numbers to reduce costs	29	16
Reduce diseases	11	13
Increase weanings per litter	10	10
Improve feed conversion ratio	8	9
Increase sale / growth weights	8	9
Better breeding stock	2	3
Reduce staff	11	8
Work longer hours	3	1
Ecco tech sheds	8	6
Upgrade feeders	7	3
Ungraded furrowing shed	3	3
Improve technology	2	3
Convert to breeder unit	1	1
Adopt best QA management	8	5
Cut costs where possible	7	7
Subsidise from other activities	3	3
Increase debt	3	1
Grow own feed	1	1
Other	18	32
Total Actions	142	132

★ Given the very negative business and competitive environment producers are experiencing, Question 29 sought to provide some indication as to ***the degree of positivity producers exhibit toward certain areas involved in their business***.

Detailed results for various groups can be found in the accompanying tables, however Chart 35 tends to present a particularly negative picture. It can be seen that the overwhelming orientation is very negative and this indicates the degree of concern being felt within the industry.

Chart 35 How Developments in Various Areas Have Affected Attitude Toward Industry



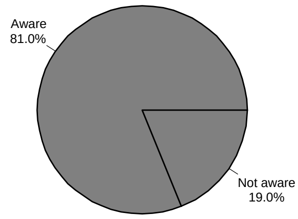
	Production	Employment on property	Investment in operation	Borrowings for farm
Positive affect	39%	12%	15%	13%
negative affect	48%	73%	75%	73%
No Opinion	13%	15%	10%	14%

DEVELOPMENT

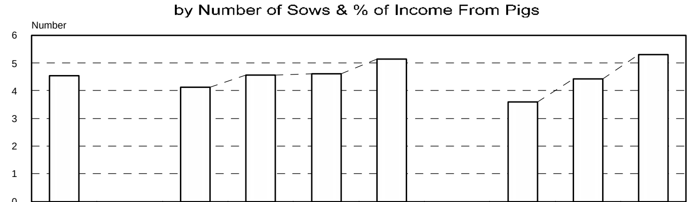
EFFECT
No Opinion negative affect Positive affect

★ respondents themselves are experiencing, but it is also exacerbated by their observations of what is happening in their industry. Chart 36 shows that 81% claim to be aware of persons being forced to leave the industry.

Chart 36 Awareness of Producers Leaving The Industry



Awareness of Producers Leaving The Industry
by Number of Sows & % of Income From Pigs



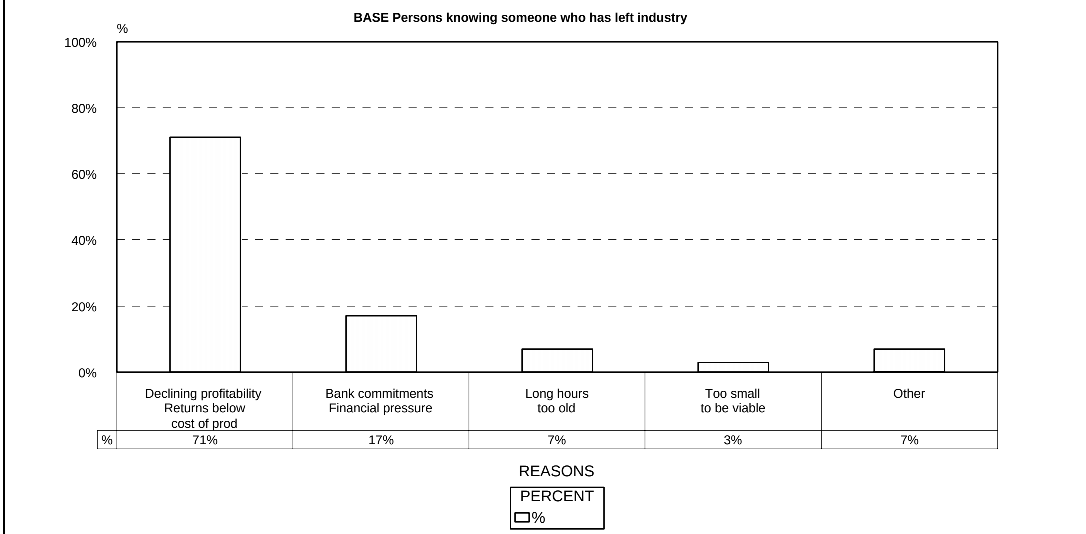
	Total		<100	101 - 200	201 - 400	>400		<50%	50% - 90%	>90%
Average	4.55		4.13	4.57	4.6	5.14		3.6	4.43	5.3

NUMBER OF SOWS & % OF INCOME FROM PIGS

AVERAGE AWARE OF
Average

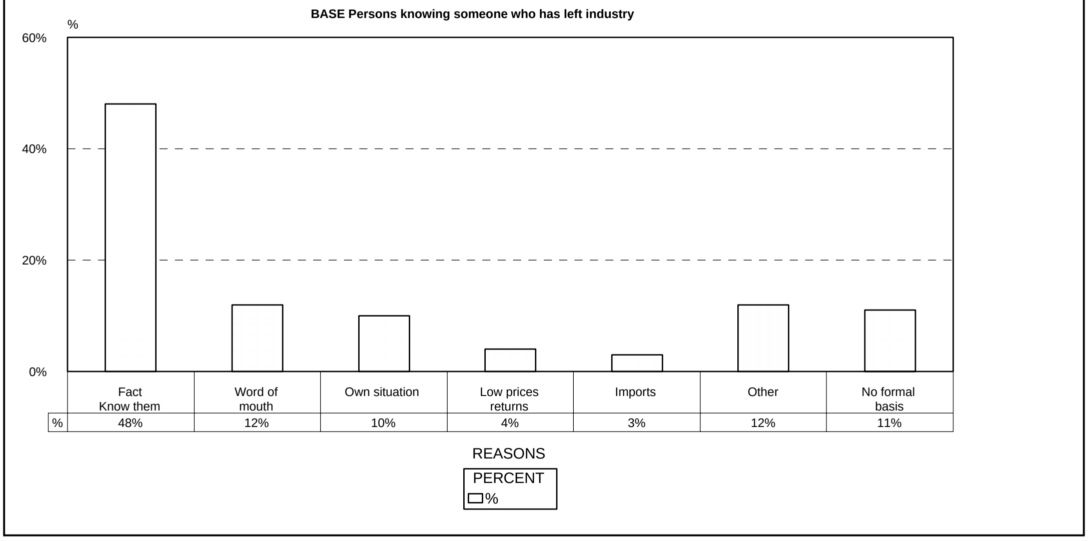
★ The ***reason they are leaving*** is directly related to the declining profitability and below cost of production returns they are receiving (71%). This is seen as resulting from importation of pig meat. Financial pressures are, by comparison, not seen as being as important (17%), although the two must be related (see Chart 37).

Chart 37 Reasons Believe Producers Have Left The Industry



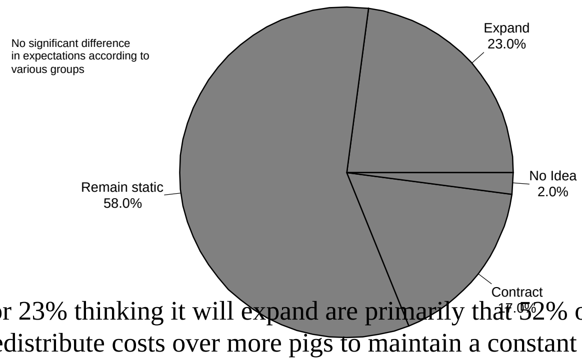
★ While it is all very well to claim to know that producers are leaving the industry, it is also important to try to confirm the nature of the information on which this is based (Question 23). The results are in Chart 38. 48% of those claiming to know of producers leaving the industry base their knowledge on knowing the producers involved. Word of mouth accounts for 12% of sources.

Chart 38 What Reasons For Believing Producers Have Left The Industry is Based on



★ By now it will not come as any surprise to find respondents have, at best, a 'wait and see' ***attitude toward the immediate future*** (see Chart 39). While 23% think it will expand, 17% think it will contract and 58% are inclined to see it remain static.

Chart 39 Futures Expectations



The reasons for 23% thinking it will expand are primarily that 52% of those with this view feel there is still room to redistribute costs over more pigs to maintain a constant surplus, and in this way remain competitive with imports.

The main reasons for 58% of respondents believing their operation will remain static are the unprofitable nature of the present market (29%) and general uncertainty about the future of the industry (20%).

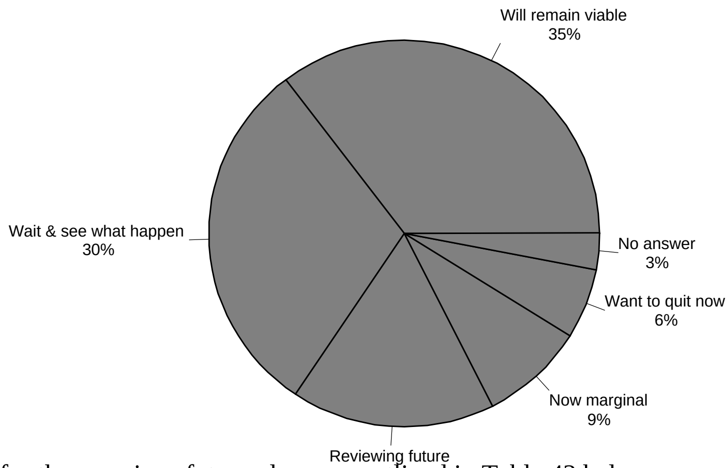
The 17% who opt for contraction do so because of lower than cost prices (45%), as well as imports being dumped as a result of Government policy (27%). See Table 40 below.

Table 40 Reasons For Expectations

Reasons	Expand	Static	Contract
	%	%	%
No profit / losing money lack of capital		29	45
Uncertainty about future		20	9
Increasing production to lower unit costs	52	1	
Import dumping / Govt. policy	4	4	27
No room to increase efficiency		12	
No export market developed	4		
Trend will not last	2	1	
Other	38	39	24
Total Reasons	102	122	106
Total respondents with each expectation	100%	100%	100%

★ A question was asked regarding what respondents' ***future plans*** are, if things are as bad as they feel they are (Question 24). This are outlined in Chart 41. 35% feel they will remain viable. A further 30% are inclined to adopt a 'wait and see' stance while 17% are currently reviewing their future in the industry. 9% regard their operation as being in a precarious and thus marginal situation and 6% want to quit now.

Chart 41 Plans For Future in Industry



★ The reasons for these various future plans are outlined in Table 42 below.

Table 42 Reasons For Future Plans

REASONS	Remain Viable	Wait & see	Reviewing future	Marginal now	Want out now
	%	%	%	%	%
Low profitability	1	23	18	50	45
Uncertainty about long term		36	24	17	9
No Govt.. support	4	15	21	17	9
Improve productivity	24	2	9		
Now unrewarding long hours	6	3	12	17	27
Trapped in industry	20		3		
Low demand		10	3	6	
Take sales form those who quit	7	2			
Grow own feed	6				
Other	42	33	30	17	18

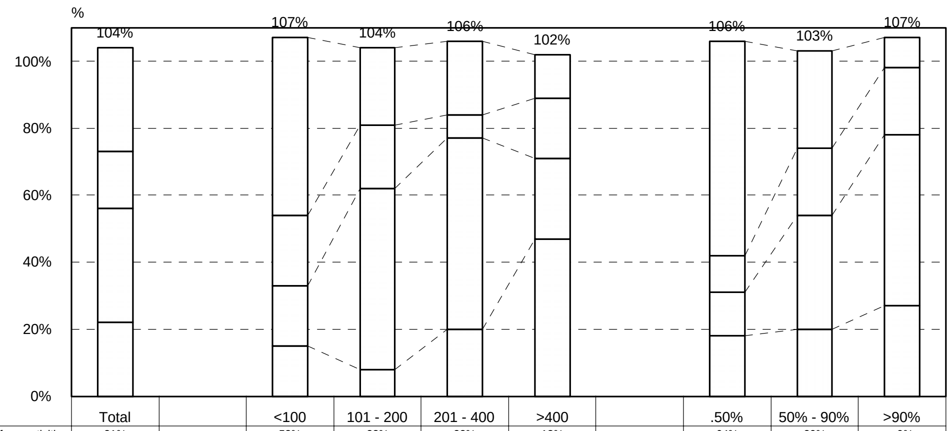
★ Finally, in Question 26, respondents were probed as ***to what they would do if forced to quit pig farming as a result of the situation that has developed*** .

Chart 43 reveals the hesitation that must preoccupy many pig farmers.

31% would concentrate on other farm activities, something that is more feasible for smaller producers who are not totally dependent on pig farming.

A further 17% would diversify and adopt other activities to supplement or replace pig farming. 34% feel they would leave the land, this being highest among those with 100 to 400 sows and who are over 90% dependent on pig farming. But the worst case relates to the 22% who do not know what they would do.

Chart 43 Course Likely to Take if Leave The Industry
by Number of Sows & % of Income From Pigs



	Total		<100	101 - 200	201 - 400	>400		.50%	50% - 90%	>90%
Concentrate on other farm activities	31%		53%	23%	22%	13%		64%	29%	9%
Diversify	17%		21%	19%	7%	18%		11%	20%	20%
Leave the land	34%		18%	54%	57%	24%		13%	34%	51%
No Idea	22%		15%	8%	20%	47%		18%	20%	27%

NUMBER OF SOWS & % Of INCOME FROM PIGS

INTENTION
No Idea Leave the land Diversify Concentrate on other farm activities

Appendix 1

Sampling Procedure

Appendix 2

Covering Letter

Appendix 3

Questionnaire

Appendix 4

Detailed Tabulations