PRIMARY INDUSTRIES
AND RESOURCES SA

Submission to the

Productivity Commission Inquiry

Pig and Pigmeat Industries: Safeguard Action Against Imports

by

Primary Industries and Resources South Australia

1 October 1998

Executive Summary

This submission by the Department of Primary Industries and Resources SA (PIRSA), has examined available information on the genesis of the Australian pig industry price crisis in 1997/98. PIRSA understands from the Productivity Commission Issues Paper that a successful safeguards action against imports requires that damage to the industry must be serious, must be directly caused by increased imports and that the damage could effectively be relieved by a temporary policy restraint on imports.

Industry and government have a vision for the pig and pigmeat industries in South Australia which capitalises on regional resources suited to further development of intensive piggeries, involves building and upgrading abattoirs to export standard and securing profitable export markets. Recent events are driving further structural adjustment of production enterprises and tempering progress in the implementation of export abattoir developments. This leaves the SA pig industry with no export processing capability and continued road transport of approximately seven thousand pigs per week interstate to Victoria for processing.

PIRSA is of the view that the changed pigmeat import protocols prior to and including that of November, 1997, coinciding with a world market moving into oversupply, enabled, motivated and triggered action by importers of pigmeat to link the price of domestic pigmeat supplies to the world price. The premature renegotiation of new contracts by SA domestic processors at much lower prices was tangible evidence of the dramatic market reversal.

PIRSA is aware that the 1997/98 pig price slump has caused, and continues to cause, considerable financial damage to many South Australian pig enterprises, adversely affecting the well-being of many pig producers, their employees and suppliers. The 1997/98 price slump is the industry's third crisis for the decade, with pig prices the lowest in twenty five years. In South Australia it has been a particularly severe shock as the full impact of the lower prices has been borne by pig producers. The impact on processors and retailers margins appear to be minor and retail prices have moved only marginally lower. Industry expectations of expansion into export markets have been replaced by concerns about current viability and uncertainty about the future.

Low world prices, precipitated by the Asian currency crisis and world oversupply of meat, coupled with imports and world pricing, transmitted an economic shock to the Australian pig industry in late 1997. While the potential for imports and alignment with world prices was established in 1990, various sanitary and phytosanitary (SPS) protocols and satisfaction with domestic quality and price probably account for the modest market penetration by imports - less than 6 percent of the total market to June, 1998. However, for pork legs, the key cut in the Australian market, imports have accounted for up to 30 percent of the market.

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Imports and linkage of the domestic pork market to the international market is a contributor, but not the sole reason for lower prices. We accept the view of University of Queensland economists, Purcell and Harrison, that **about 30 percent of the variation in domestic prices can be directly attributed to the exposure of the domestic market to imports and world prices (ie the effect of actual imports and <u>the threat of imports</u>); a similar impact on prices to that of domestic production. Post-1997 analysis by the researchers quantifies the price impact of actual imports at 10 cents per kilogram, plus or minus four cents, per 1000 tonnes of imported pigmeat.**

Encouragement to the domestic pig and pigmeat industries to develop export capability is being given while some fundamental impediments to world competitiveness exist. For example, pig producers are unable to import feed-grains and unable to consistently purchase domestic cereal feed grains at world parity prices.

The Australian pork industry is seriously disadvantaged in achieving world competitiveness. Disadvantages occur before and after the farm gate including: grain prices above world parity, higher transport and fuel costs, higher meat inspection charges, higher piggery and abattoir construction costs, and insufficient regional pig populations to achieve economies of scale justifying investment in world best technology and efficiency in processing.

If exports are the goal, then competitiveness is the key. It is a major strategic incongruity that the pig industry is aiming for export markets when many of its producers and processors are not world competitive in their costs of labour, feedstuffs, transport, meat inspection and processing. Industry strategic planning for exports and government grants for abattoir development are flagging an opportunity in exports that cannot profitably or sustainably be fulfilled until competitive conditions exist.

Federal Government capital grants to pigmeat processors for developing abattoirs to export standards will enable more domestic production to be exported, if the grants are taken up and the developments actually occur. Critical to investments occurring will be the conviction of processors that their operations will be competitive and that viable markets can be accessed and maintained. These decisions will not be easy in a world market with key importing countries in recession. In this situation, it is certain that the pig industry will need to continue to adjust to import competition and world pricing. It is less certain that it will have increased export capability and access to profitable export markets in the short term at least.

The results of current pig and pigmeat industries benchmarking studies will be vital to an appreciation of the competitiveness of Australia's domestic industries, particularly in quantifying competitiveness gaps. These studies should identify government policies directed at other industries which are contributing to the lack of competitiveness of the pig and pigmeat industries. They should also detail the world marketing of pigmeat cuts in various countries where demand for bellies in Asia gives rise to "cross subsidisation" of pork legs sold in both the Canadian domestic market and exported to the Australian market. While this situation does not appear to be "dumping" it does indicate a complex and highly competitive world market for pigmeat which is impacting locally via open market processes.

Introduction

This submission is lodged by the Department of Primary Industries and Resources SA (PIRSA). It is intended to assist the Productivity Commission in its assessment of whether temporary relief from imports of pigmeat, in the form of "safeguard" action to aid industry structural adjustment, is justified. It also aims to identify some issues which are affecting the competitiveness, profitability and outlook for the South Australian and Australian pig and pigmeat industries.

SA Vision for the Pig and Pigmeat Industries

In 1997, the SA Government agencies, the Department of Industry and Trade (DIT) and Primary Industries and Resources SA (PIRSA) produced documents relating to pig industry and pigmeat processing industry development:

- "The Development Guidelines for the Establishment of Intensive Piggeries in South Australia", PIRSA, July, 1997, and
- "Investment Opportunity – Pigmeat", DIT/PIRSA, October, 1997.

These documents are tangible evidence of development planning and outlook by the SA Government for the South Australia pig and pigmeat industries, prior to the price slump from late 1997. In summary, the vision, as documented, includes:

- An industry with development protocols in place, ready to manage larger scale, intensive pig enterprise investment.
- A state with regions having features attractive for local and foreign investment in piggeries and pigmeat processing,
- Pig and pigmeat processing industries which are profitable and competitive in the domestic and export markets.

This vision involves increased production of pigmeat, increased pigmeat processing capacity, including development of export abattoirs leading to export of quality pigmeat. The vision is maintained, despite the 1997/98 pig price slump, and the less promising outlook for pigmeat/meat trade in Asian and other markets due to economic slow-down and negative growth in key importing countries.

South Australia accepts the reality that the Australian pig and pigmeat markets have been integrated into the world pigmeat market, via progressive relaxation of import policy and sanitary/phytosanitary (SPS) protocols. So long as Australia intends to comply with World Trade Organisation (WTO) rules and without other WTO permitted policy change (ie safeguards action) now or at any time in the future, the implication for the Australian industries is on-going reference by domestic producers, processors and traders to world demand, supply and price.

It seems more than an unfortunate coincidence that the protocol relaxation in November, 1997, should mark the commencement of the worst price slump in at least the past quarter century for the pig industry. However, the national commodity forecaster, the Australian Bureau of Agricultural and Resource Economics (ABARE), does not attach significance to the protocol change, attributing the fall in pig prices to a combination of factors, remaining uncertain about the role of imports:

"The current low pigmeat prices can be chiefly attributed to a combination of higher production, lower feedgrain prices and lower beef prices. Imports of pigmeat also affected prices but their role in the most recent price fall is not clear" (ABARE, 1998)

Independent analysis by Purcell and Harrison (1998) supports the view that access to unlimited supply of pigmeat at "world price" through imports has permanently changed the nature of the market for pigmeat in Australia. The authors are critical of previous studies that have contended that higher domestic production is the dominant influence on domestic prices, attributing little influence to the availability or price of imports.

Purcell and Harrison concluded that imports, in the period 1984 to 1997, did play an important role in the domestic pig market:

…"a significant relationship between import volumes and prices and domestic production and prices at all levels of the marketing chain."

For a data set from 1984:4 to 1997:2 (ie not including post 1997:11) They explained variability in saleyard baconer prices as follows:

- Domestic production of pigmeat – 35%;
- Changes in import volumes – 30%;
- Changes in saleyard prices of cattle – 20%;
- Changes in the retail price of pork – 10%;
- Changes in the imported price of pigmeat – 10%.

"For every additional 1000 tonnes of pigmeat that was imported, domestic producer prices fell by between 9.8 and 30.5 cents per kilogram."

Both ABARE and Purcell and Harrison attribute most price variability to domestic production; they also agree that imports affect prices. They differ in assessment of the contribution of imports to price variability. Only Purcell and Harrison have analysed the role of imports in the post-November, 1997, period, confirming the pre-1997:4 impact of imports within the above range and quantifying it at 10 cents per kilogram, plus or minus four cents, for every 1000 tonnes of imported pigmeat (Purcell, 1998).

South Australia is concerned that its vision for a competitive industry with profitable export capacity may have less potential in the immediate future than appeared to be the case prior to the price slump. The rationale that the Australian pig and pigmeat industries needed to become successful exporters of pigmeat has been challenged by changed circumstances, which gave rise to the 1997/98 price slump. Herein lies the significance of a sound and plausible understanding of the market crisis and its partial recovery. A greater degree of agreement by industry and government about the role of various factors, including imports may also lead to a better appreciation about the prospect for exports.

The pig industry crisis of 1997/98 has revealed an industry which is production efficient, but domestically grounded in its production; more closely linked to world pricing, and in the case of South Australia, having no current capacity for export. The price slump has been both an economic and a confidence shock and it is not clear how competitive or profitable the Australian pig and pigmeat industries are in the world market.

Some evidence for this concern is provided in the fact that key developments in South Australia are behind schedule (ie the Murray Bridge Export Pig Processing Abattoir development) and the incentive for their progress must be affected by domestic structural adjustment driven by low prices, world pigmeat/meat markets and economic conditions in Asia and other consuming countries.

SA Perspective on Current Crisis

The South Australian pig industry is experiencing a severe economic downturn following additional relaxation of import protocols in November, 1997, which effectively opened the Australian market to unlimited importation of pigmeat, from Canada and Denmark. When imports of pigmeat into Australia became possible in 1990 sanitary/phytosanitary (SPS) protocols were the only barriers to free entry of imports. Import volumes were negligible until 1996 and increased to around 10,000 tonnes per annum (3 to 4 percent of the market). Significantly, imports of the key market segment, legs of ham, began to account for 30 percent of the domestic market; a level which has affected the price in that market segment (Purcell and Harrison, 1998).

Finally in November, 1997, another protocol change appears to have been the date from which purchasers of pigmeat (businesses which are capable of mixing and switching contracts to purchase either domestic or imported products) have been able to reference their pricing of domestic pigmeat to the “world price” as represented by the price of pork legs from Canada. This alignment of the domestic and international price for pigmeat is a logical outcome of the process commenced in 1990, and should have been anticipated by all parties. It follows a simple economic law, the “law of one price” – in a perfectly free market the same product, net of transaction costs, will sell for the same price everywhere (Kuttner, 1998).

The fact that a small volume of imports could actually achieve alignment of prices appears not to have been forecast by some earlier modelling on the subject (Industry Commission, 1995). This must cast serious doubt on the validity of those models, since the connection is one of fundamental economics. What is surprising is that there are critics of the econometric work by Purcell and Harrison, which provides a comprehensive attribution of contributing factors to plausibly explain the dynamic relationships between imports, domestic prices and production.

The 1995 report by the Industry Commission accepted ABARE and NSW Government results that imports can have an impact on retail prices for fresh leg pork meat (p xxiii). However, it concluded that:

"imports to date do not appear to have had an appreciable effect on the level or seasonality of domestic pig prices, or on the prices of local pigmeat for manufacturing."

This conclusion was possibly correct at the time as the import protocols had not relaxed to the point where importers could exercise complete flexibility and market power in referencing to the world price, as became possible in 1997/98.

So, the policy to progressively relax import restrictions, commenced in 1990, had fully relaxed by late 1997 with respect to Canada and Denmark. This enabled world pricing of domestic pigmeat, without imports accounting for a significant share of the overall market, but with purchasers of pigmeat having the capacity to switch their source to imports at any time and therefore referencing their pricing policies to the international price. While no harm was directly intended to the local industry, it would be dis-ingenious to suggest that the "world pricing" outcome could not be foreseen as inevitable and predictable. Making a connection between pigmeat imports, world pigmeat prices and domestic pig prices has not been able to be simulated by some econometric analyses, which suggest flaws in the models rather than the market itself.

The unimpeded entry and unlimited availability of pigmeat from Canada, Denmark and other countries as protocols have been progressively relaxed means that the Australian industries must be competitive in every respect (eg quality, quantity of particular cuts at specific times and price) with alternative sources in order to secure orders and contracts for supply. The end result of this dynamic process will be reflected in the market share, the profitability and pressures for structural adjustment of the Australian pig industry.

This entry by Australia to the world pigmeat market coincided with the economic turmoil in Asia, which continues to intensify and spread to other major economies, and the traditional factor of competition from other meats.

So, there are at least three major factors at work in the slump of pig prices in South Australia/Australia in late 1997:

- World price referencing of pigmeat by wholesalers/retailers in Australia following the further relaxation of import protocols, enabling unimpeded and unlimited availability of imports from Canada and Denmark;
- Economic slow-down and recession in some Asian and other economies, and
- The traditional opportunity for substitution between alternative meats by retailers and consumers.

The tariff on pigmeat imports was set at zero in 1994, prior to the possibility of imports of uncooked pigmeat, prior to the entry of any significant quantity of imports and prior to the potential for domestic dealers in pigmeat to reference their pricing policies to world prices, irrespective of whether they actually imported product or not. This is a situation where preference for the locally produced product is possible. However, where alternative supply (ie imports) exist in large quantities the price of the local product will almost certainly be referenced to the imported possibility; it would be imperfect market behaviour were this not to occur.

Superior quality of the local product or simply national loyalty may account for the preference for the local product, but the substitutability of the two sources will provide a cap to the price of the local product. Total relaxation of import protocols in November, 1997, enabled for the first time, unimpeded access to supplies of pigmeat from leading world exporting countries, with the expectation that similar relaxation of protocols will follow for other world leaders in pigmeat trade.

It is wrong to deny this connection by reference to the fact that no pigmeat has actually been imported under the most recent protocol change. It is the possibility of imports, combined with the market positioning and power of wholesale/retail purchasers of pigmeat that enables the market to operate in this way. There is nothing intrinsically wrong with this market mechanism. It would be more surprising, and indicative of an imperfect market, if it did not work in this way once it were possible.

The complete exposure of the domestic Australian pigmeat market to unrestricted imports has been intended Federal Government policy for most of the decade, and the South Australian Government, along with other state governments has not been able to find justifiable argument for continuation of SPS restrictions. The final removal of those SPS restrictions, combined with the installation of a zero tariff some years earlier, has resulted in a hard landing of the domestic industry into world pricing. No cushion in the form of a tariff, a quota or other adjustment policy was in place to ameliorate the potential damage that access to unlimited imports may amount to following the 1997 protocol change and its coincidence with low world pigmea/meat prices.

The 1995 Industry Commission inquiry into pigs and pigmeat accepted econometric market analysis that pigmeat imports:

"do not appear to have had an appreciable long term effect on the level or seasonality of pig saleyard prices or on the wholesale prices of local pigmeat for processing" (p23).

The results were seen to be indicative rather than conclusive, due to data deficiencies. Significantly, the results suggested that imports can have an impact on retail prices for fresh leg pork meat.

Based on this assessment, it has not been unreasonable for the Australian Government to be confident and optimistic that it could act on a preference for market driven adjustment, advancing free trade principles in practice by liberalising imports into a small, unprotected industry. The goal of course has not been to intentionally damage the Australian industry; the hope is that the competition will hasten the development of a profitable export sector of the industry, thereby increasing the net benefit to the Australian economy.

Compliance with World Trade Organisation rules and advancement of trade liberalisation generally has been perceived as desirable trade policy by Australian governments formed by both major political parties for at least the past two decades. Free trade and the efficient allocation of resources (eg feed-grain and labour) that accompanies it has been the "main agenda". The possibility of price benefits to consumers of pigmeat is a secondary outcome to justify trade liberalisation. Nonetheless, part of the reason for commitment to WTO rules would have been in expectation of consumer benefits. Progressive alignment of domestic and world pigmeat prices was anticipated in the 1995 inquiry, as were the potential benefits to consumers:

"Although (imports) could create some short-term difficulty for some sections of the pig and pigmeat industries, it would further benefit bacon, ham and smallgoods manufacturers, and consumers of those products (p31)."

Analysis by Purcell and Harrison (1998) projects an alternative scenario where retail prices for pork are no lower to consumers, middle-people profits are unchanged and there is no significant growth in exports. The point is that the main gain from liberalised trade is more certainly WTO compliance and middle-person choice and less certainly consumer benefit. In this scenario, the principal beneficiaries are primary producers in the grain and beef industries and the losers are current pig producers who are less profitable and poorly positioned to cover the new risks and capitalise on new opportunities.

A concern with the policy change is of course that the actual economic experience from late 1997 and into 1998 has coincided with a significant departure from earlier modelling, forecasts and expectations that imports would not have a significant effect on the domestic market. Also, market forecasts by ABARE, continued to forecast buoyant pig prices around $2.30/kilogram for 1998 when prices had actually hit a twenty five year low of $1.35/kilogram in South Australia. This has inevitably affected the confidence of the pig industry in ABARE's pig price forecasting and their econometric analysis in relation to pigmeat import impacts.

The present inquiry, the second in three years, but the first "safeguards inquiry", has been instigated by government and industry concerns about the economic crisis, the third this decade, and whether safeguards action could be justified to provide a temporary adjustment period for an industry that has an almost classic market adjustment profile in the past several decades. In 1997 the number of pig producers nationally is less than one tenth (3,337) that of the industry in 1969 (40,196). However, herd sizes are larger and national sow numbers are about the same at 299,000 (Meo and Cleary, 1998, p14). At June, 1997, SA accounted for 20 percent of Australia's pig herds (680) and 16 percent of sow numbers (47,846). The cost price squeeze has provided the incentive for productivity increases to maintain profitability. Structural change is an outcome of this process, where the prime mover is the market.

The present inquiry is required to make a judgement on whether the economic "damage" that is occurring is "serious", is attributable to imports and within WTO rules can legitimately be countered by the triggering of "safeguards". This is a very complex matter and brings into play econometric analysis in an attempt to decide the issue. Herein lies the next minefield: the quality of the models used for this work and the reliability of the outcomes. The fact that there are various models being used, generating different estimations to the impact of imports with quite different conclusions calls for resolution. The situation demands a convincing resolution where various parties have confidence that the outcomes of the analysis are plausible and accurately reflect actual market behaviour.

South Australia's vision is for a profitable, growing and export successful pig industry beyond 2000. The vision needs to be realisable to enable fair competition with imports from major trading nations. It is threatened by any development that decreases sow numbers, decreases pig abattoir throughput and the viability of pigmeat processors, existing and developing.

Damage and Injury

There is no doubting that the recent pig industry price slump has damaged individual pig producers businesses. This year about 100 SA pig producers are clients of Rural Counsellors (see Appendix 1, Moore, 1998). Counsellors had very few pig farmer clients 12 months ago. The extent of the damage to individual businesses cannot be assessed from Rural Counsellors data since it is confidential. Notwithstanding Moore's collation of Rural Counsellors' pig producer client information is clear evidence of financial damage to businesses in 1998. PIRSA has not instigated its own economic survey of the industry, though we are aware of a Pork Council of Australia survey and one by the Queensland Department of Primary Industries.

To PIRSA's knowledge the injury is restricted to pig producers and some pig farm supply firms and does not extend to processors or retailers. This situation reflects the relative bargaining power of firms in the market chain and their capacity to curtail existing contracts and "offer" new contracts to producers in order to maintain their margins. Retailers do not have to directly engage in importing to participate in the benefits of adjusted pricing elsewhere in the industry. Nor does one expect to see retailers dropping retail pigmeat prices if margins for pigmeat can be increased, perhaps offsetting smaller margins on other meats in the meat department.

PIRSA sees the present policy as an outcome of a considered and lengthy liberalising of import protocols by the Federal Government, not opposed by any State Government. It has been seen by governments as a necessary and unavoidable compliance with WTO rules. PIRSA believes that it would be incongruent to be shaping up for export competitiveness without being capable of competing with imports at world prices. We are aware that some of the world's leading pigmeat exporters do maintain protection of their domestic industry as a secure base for trade. For example, Denmark protects its local industry with high tariffs and is the world's second largest exporter. The path to exports that Australia has chosen via unprotected exposure to imports is not without risks. However, as one Frederic Wilcox observed:

"Progress always involves risk; you cannot steal second base and keep your foot on first."

PIRSA is satisfied that the Australian pig industry has access to the same adjustment assistance as other primary industries not deemed to be in "exceptional circumstances"[1]:

- FarmBis training within Advancing Agriculture-Australia
- Farm Family Restart, through the Department of Social Security

In addition the pig and pigmeat industries have been accorded special assistance to further develop export abattoirs, domestic and international markets.

Since the 1997/98 price slump has been shown to be the worst in the past twenty five years PIRSA has no difficulty in accepting that the pig industry has been seriously injured by the recent experience. PIRSA accepts the analysis by Purcell and Harrison about the role of imports in conjunction with other factors. Whether the injury is sufficient to satisfy WTO "safeguards" is a matter for the Productivity Commission to assess. However, PIRSA does not expect that the circumstance of serious injury will pertain indefinitely. We start with the view that while markets are not perfect and do overshoot, they also seek a new equilibrium over time.

Profitability and Competitiveness

PigStats 97: Australian Pig Industry Handbook includes industry study group information on Breeding Herd Performance (Meo and Cleary, 1998, Section 3, pp 15-28), Finishing Herd Performance (Section 3, 29-43), Financial Performance (Section 4, pp44-57) and Performance Trend Analysis (Section 5, pp 59-69). This data is a sample of the industry, not random, and not the same sample from year to year. Nonetheless it is the best available industry data of its type and is quite superior to the information that many other primary industries have available to them.

The range of productivity and financial performance indicated in the handbook serves to emphasise the need to avoid generalisations about the profitability or competitiveness of the Australian pig industry, since individual pig herd performance varies on many parameters. The statistics provide a base to compare performance within the Australian pig herd through time and potentially to compare performance with equivalent data from competitor trading countries, if it was available. Benchmarking the Australian pig and pigmeat industries against other countries pig industries is the subject of separate studies by FarmStats Australia P/L and ProAnd Australia P/L. Until that work is complete it is not possible to be objective, with current knowledge, about the current competitiveness of the pig and pigmeat processing industries (Cleary, 1998).

Simply, what can be concluded from the PigStats data is that some parts of the Australian pig industry are more productive and profitable than other parts; a point worth emphasising in assessing the impact of the 1997/98 price slump.

[1] PIRSA supported the South Australian Farmers Federation in their application for Exceptional Circumstances assistance.

Productivity and profitability data in PigStats is not presented by States, so it is not possible from the industry handbook to compare the performance of South Australia with other States. There are no technical or physical impediments for pig farms in SA to be less productive than pig farms in other states. The availability of feed-grains, particularly barley, from within SA is a valuable asset, accounting for SA having the fourth largest pig herd in the nation. However, Australia's insignificance in world pigmeat trade and inability to gain a toehold in key markets to date prompts the question: What conditions or policies are detracting from international economic competitiveness of the Australian pig and pigmeat industries? The answer lies in many factors, domestic and in competitor countries. While feedgrain policies and costs are the key determinant of competitiveness and profitability in intensive animal industries, other factors can also be important.

<u>Feed-Grains</u>

Feed-grains account for between 49% and 64% of total pig enterprise costs in the PigStats sample; clearly the most important factor. It is not possible for SPS reasons to import feedgrain into Australia. If the Australian pig industry is not accessing its various sources of feed-grain at world competitive prices, then pig farmers who purchase feedgrains are at a distinct disadvantage in their competitiveness on the world market. The implication is that these pig farmers will be less competitive against imports at lower prices and have less incentive to expand production for export market development.

Barley feed-grain is a major ingredient in SA and Victorian pig feed rations. Barley as feed-grain accounts for about 16% of the Australian feed-grain utilisation in the eight year period, 1989/90 to 1996/97 and up to 23 percent in the most recent drought year (Weatherford, personal communication). Nutritionally, it can comprise up to 75- 80% of the pig ration. Price is a more important limitation than nutrition in determining the share of barley that emerges from least cost ration formulation (Sangio, 1998).

The inability to import feedgrains, because of SPS concerns, combined with an export orientation of grain industries gives rise to a situation where domestic intensive animal industries are not purchasing cereal feedgrains from an open market at world price, but from a functionally separate domestic market which may or may not be supplying feedgrains at world parity prices. This constitutes a competitive disadvantage to intensive animal industries in Australia, including the pig industry.

<u>Other factors</u>

Other factors where the Australian industry is seriously disadvantaged in competitiveness with other major exporters include:

- High transport and fuel costs;
- Low throughput and poor economies of scale in processing;
- Industry borne meat inspection charges;
- High pig and abattoir construction costs, and
- More generous government support programs in other countries.

Edwards (1997) observed that: “Geographic dislocation is exacerbated by prohibitively high internal freight costs which favour the exporting of grains rather than transport within Australia.” This point makes the connection between high transport costs and the orientation of the grains industries towards exports. The resultant impact on the pig industry is higher feed costs. So, freight costs impact directly and indirectly on the key input, feed costs, and on the transport costs of the finished pig.

The largest pig producer in the United States, Murphy Family Farms in North Carolina, has more than 300,000 sows; about the same number of sows as the Australian herd (Anon, 1998). Most pig abattoirs in Australia are supplied with a fraction of the number of pigs supplied to abattoirs in the USA. As a result, local abattoirs achieve throughput of around 5000 pigs per week, which is about one twentieth of the weekly throughput of leading abattoirs in the USA. Tyson Foods identified 20,000 pigs per day as a benchmark target in 1989; Iowa Beef Packers are currently processing up to 20,000 pigs per day (Lloyd, personal communication).

Australian pig export abattoirs are charged for Australian Quarantine Inspection Service (AQIS) meat inspection services, whereas other countries such as Denmark and Holland provide government veterinary meat inspection services without charge (Brink, 1997, p 43, p53). OECD sources cite producer subsidy equivalents in Canada and Europe double and quadruple the equivalent measure of assistance in Australia (OECD, 1998).

The presence of sources of disadvantage domestically and sources of assistance in other countries that are not available in Australia adds up to a situation in which the Australian pig and pigmeat industries fall short of international competitiveness. These industries will only be able to grow and sustain significant and profitable export markets when domestic economic policies and those of competitor countries converge.

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Appendix 1

Rural Counsellors' Pig Producer Client Numbers in 1998

Overview

Following conversations with eight South Australian rural counsellors, my conclusions are:

1. The number of pig producers seeking help from Rural Counsellors has increased over the past year from less than 20 to almost 80, including a peak three months ago of around 100.
2. The worst affected producers are the stand-alone piggery owners, those that are carrying a lot of debt, and those that were of borderline profitability before the price crisis.
3. Levels of debt range from zero for some mixed farming businesses, to over $1M.
4. Rates of loss are estimated at $1000 per week per hundred sows.
5. Equity levels for most producers are estimated to have dropped to 40-60% from pre-crisis levels of 60-75%.
6. A significant number of producers are waiting for prices to improve to the point of making their piggeries saleable, after which they will leave agriculture, either due to the pressure of debt or anxiety about the future.
7. Many piggery workers, and in some cases family members, have lost their jobs, with owners taking over and working for no income.

Regional Summaries

Murraylands:

- Between 30 and 40 clients, mostly from mixed farms. This represents 25-30% of clients.
- Twelve months ago there were 4 or 5, but their problems were generally personal and not financial.
- Numbers peaked at more than 70 three months ago.
- Four producers have left agriculture, 8 to 10 will be leaving, and several others have downsized their stock numbers to maintenance levels.
- The rural counsellor is acting on behalf of several clients in seeking finance to continue production.
- Debt ranges from $40,000 to $480,000.

Mid North:

- 24 clients with pigs as sole or primary source of income.
- Twelve months ago there were five.
- Owners of smaller piggeries are having to work off-farm to support their piggeries, and the consequent lowering of production efficiency due to their absence from the piggery is causing many to consider leaving the industry.
- Larger piggeries with greater debt have had to refinance, and several have been referred to asset management sections within their banks.
- Many producers will have no choice but to leave the industry, but they will try to remain until all options run out.

Barossa Hills and Plains:
- Six clients with pigs as sole or primary source of income.
- Twelve months ago there was one.
- Three will leave the industry, two from choice and one from foreclosure.
- Debt levels vary from zero to $50,000, with one client owing $1M after borrowing on the strength of pre-crisis price.

Riverland:
- No current clients and none twelve months ago, although three have been referred to the Murraylands Rural Counsellor. Riverland piggeries are generally backed up by other enterprises.
- One producer with a stand alone piggery will be leaving the industry.
- Another producer was losing money at the rate of $7,000/month.

South East:
- One current client.
- Twelve months ago there were two, but one has left the industry.
- The client is losing $1000/week, has debts of $150,000, and has dropped equity from 70% to 67%.

Yorke Peninsula
- Two current clients
- Twelve months ago there were five, but two have since left the industry and two more intend to leave.
- The remaining client is receiving Centrelink payments under hardship provisions, and the Rural Counsellor has had to negotiate on their behalf with their bank.
- They are attempting to remain on their mixed farm, but low barley prices on the heels of low pigmeat prices may force them from the land.

Eastern Eyre:
- Three current clients
- Twelve months ago there were two clients.
- One will leave the industry and another will carry the piggery with other income sources.
- The third is a stand alone piggery in a good deal of trouble, and the owners will probably have to leave the industry.

Western Eyre:
- No pig producers as clients, as businesses are mixed enterprises and piggeries are being carried.

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PRIMARY INDUSTRIES AND RESOURCES SA
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