NSW GOVERNMENT SUBMISSION TO THE PRODUCTIVITY COMMISSION
INQUIRY INTO PIG AND PIGMEAT INDUSTRIES:
SAFEGUARD ACTION AGAINST IMPORTS

September 1998

The NSW Government welcomes the Productivity Commission *Inquiry into Pig and Pigmeat Industries: Safeguard Action Against Imports* as an opportunity for a thorough assessment of the effects of international trade policy on the Australian pig industry and specifically on the pig production industry. The potential for pig meat imports to impact negatively on the New South Wales pig industry has been a major concern to both the industry and the NSW Government. It is therefore appropriate that a rigorous attempt be made to quantify these impacts and that serious consideration be given to the implementation of safeguard actions permitted under the WTO Agreement on Safeguards.

There has been considerable debate over the use of safeguards against imports of frozen pig meat. For example, one of the key findings of the 1995 Industry Commission research report on *Pigs and Pigmeat* states that *"Action to protect the local pig and pigmeat industries from imports could conflict with Australia's international trade objectives and obligations"*.

In responding to the call for submissions to the Inquiry, the NSW Government has focussed on a number of specific issues. These include a general comment in relation to the terms of reference of the Inquiry, and more detailed discussion on the way imported product impacts on the domestic pigmeat trade. The submission then provides: an outline of the NSW pig production industry; an analysis of piggery profitability; and some observations on unit costs of imports against locally produced pigmeat, as well as providing trade figures nationally and for NSW.

TERMS OF REFERENCE

The NSW Government agrees with the conclusion in the Productivity Commission's Issues Paper that the Australian pig production industry is encompassed under the conditions of the WTO Agreement on Safeguards as an industry that produces like or directly competitive goods. The primary product of the pig production industry, i.e., pig carcases, competes directly with imported frozen pigmeat as an input into the processing industry. Therefore investigation of the threat of or actual serious injury to the pig production industry resulting from the importation of frozen pig meat is appropriate under this inquiry.

IMPACTS ON THE DOMESTIC INDUSTRY

First, it is observed that the 1995 Industry Commission report into *Pigs and Pigmeat* failed to take into account the central role that the supply of legs and leg meat for the Christmas market plays in the Australian industry. It is the view of the NSW Government that while the Commission recognised that demand in the Christmas season consumes 40 per cent of annual ham sales and 20 per cent of annual fresh pork sales, it did not adequately consider the ramifications of this in assessing the impact on the Australian industry of allowing the importation of frozen pigmeat.

Historically, the Australian pig production sector has supplied whole carcases to the processing sector. The processing sector sells unprocessed meat as pork or processes pigmeat for sale either immediately or commonly freezes pigmeat for storage and later processing. Until the prohibition on the importation of fresh and frozen pigmeat was lifted in 1990, the Australian pigmeat industry was characterised by fairly consistent year round production (driven by economies of throughput), coupled with seasonal retail demand for processed leg meat and to a lesser extent fresh leg meat. The driving force behind production levels and herd inventories in this country was the need to supply leg meat for the Christmas market.

Not surprisingly, legs and leg meat are the premium priced products in the Australian industry. However, this is not the case in other countries. In Canada and the USA premium prices are paid for middles and loins. Similarly, the largest importing nation in the world, Japan places a premium on loins. The Australian leg meat trade is then an ideal market for the Canadian industry. Seasonal price trends are reversed in the two countries and the demand and a premium is placed on a lower priced product. Meat traders have recognised this. An earlier focus on importing carcases has been replaced by a preponderance of leg meat imports.

The impact of leg meat imports into the Australian pigmeat industry was raised by many industry submissions to the 1995 Industry Commission research project, however the Industry Commission considered that it was more appropriate to *"relate imports to pigmeat production - not just leg production"*. This statement represents the failure to understand the driving forces in the pig and pigmeat industry in that report.

Industry estimates that imports represent up to 30 per cent of leg meat production annually (PCA 1998). This is three times more than the industry estimates quoted by the Industry Commission in the 1995 report. In light of the role that leg meat supply has had in the domestic industry, this increase in the volume of imports over the last three years warrants serious assessment.

Until 1990, the Australian pig and pigmeat industries were virtually isolated and therefore protected from the world trade in pig meat. Australia is a very small player in the international pigmeat market. In 1997, three major pig exporting countries, the USA, Denmark and Canada each exported roughly 1.5 times total Australian pigmeat production. Significantly, pig production in the USA is characterised by the 'hog cycle' of major expansion and contraction in pig inventories and significant price and profitability fluctuations. Due to the size of the USA industry and the role of the USA as a major importer and exporter of pig meat, the effects of that industry's hog cycle are felt in global markets, including Australia.

Direct competition from imports, will and is forcing an adjustment by the domestic industry, particularly the production industry. Not only does the current trade require careful examination but the potential for and impacts of increased imports under the current protocols needs to be assessed in this current inquiry.

NEW SOUTH WALES PIG PRODUCTION

New South Wales is the largest pig producing State in Australia, and pig production and processing make a significant contribution to the NSW economy, particularly in rural areas. Piggeries tend to be sited close to supplies of feed grains, either in small towns or near provincial cities.

In June 1997, NSW had around 675,000 pigs, including 94,223 breeding sows, in 1,059 pig herds (representing about 32 per cent of the Australian herd). The volume of pigmeat production in NSW in 1996/97 was 88,685 tonnes, or 27 per cent of total Australian production of 325,590 tonnes. The volume of pigmeat production in NSW has been trending down since mid 1995 - between 1994/95 and 1996/97, pigmeat production in NSW fell by 13,388 tonnes or 13 per cent.

It is worth noting that in NSW the majority of pig farms are small, usually mixed farms. It is evident that there has been a high degree of rationalisation in the industry - small producers are leaving, resulting in the average herd size in Australia rising from 48.3 sows in 1990 to 89.5 sows in 1997, and the total number of producers declining from 6,847 to 3,337 over the same period.

Against this background, there have been substantial imports of swine products into Australia and NSW, resulting in the last two years in a negative trade balance for pigmeat in NSW, particularly for frozen pigmeat. As this is the largest traded and highest value added component of pigmeats, there is growing concern about the impact such imports will have on NSW producers. This relates particularly to their ability to maintain production and continue the implementation of efficiencies which are necessary for them to compete successfully in this market, both locally and internationally.

ANALYSIS OF PIGGERY PROFITABILITY

Unusually depressed prices and markets characterised the NSW pig industry over the last three quarters of 1997/98. Piggery profitability in NSW was assessed and compared to the national industry performance over preceding years based on data from the pig industry's benchmarking publication PIGSTATS.

PIGSTATS is produced annually by the Pig Research and Development Corporation and the Australian Pork Corporation and is currently based on 26 Australian pig herds, some of which are located in NSW. The data recorded include reproductive rates, throughput and feed conversion of the herds plus a detailed assessment of farm finances. The PIGSTATS model has been providing industry benchmarking data for over 10 years and is used widely in the industry as a reliable indicator of farm performance.

PIGSTATS is limited to piggery operations on-farm. There is no information available on the overall performance of mixed farms which include piggeries. A large number and many of the smaller piggeries in NSW are mixed farms.

The most recently published data in PIGSTATS relate to the financial year 1996/97. NSW farm performance figures for 1997/98 ie actual pig prices and feed costs were obtained from a representative 120 sow pig producer in the Central West of NSW. This information was put through a PIGSTATS based model and estimates made on the cost of production and operating margins. Whilst this information could have been based on market reported pig prices, it was based on an individual farm's performance to allow direct analysis against actual feed prices.

The margins given in Table 1 and used as industry benchmarks are operating margins. Operating margin is the total cost over income. Costs include herd costs, shed costs, feed costs, labour costs and overhead costs (accountancy, commissions, bank fees, consultants, phone/fax, licences, subscriptions, travel & seminars, postage & journals, vehicle costs, repairs to plant and equipment, shire rates, farm insurances, slaughter levies, interest on loans, rent leases and depreciation).

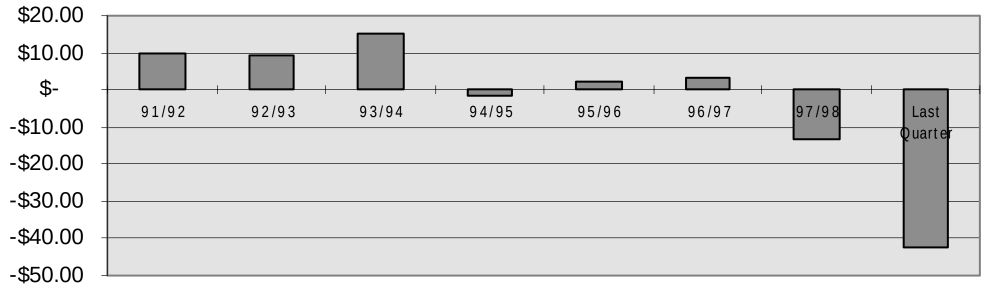
Table 1. Estimates of financial performance.

	91/92	92/93	93/94	94/95	95/96	96/97	**97/98**	**Last Quarter 97/98**
Costs per pig sold	$ 127.97	$ 128.62	$ 134.75	$ 144.36	$ 152.53	$ 157.40	**$ 148.20**	**$ 148.90**

Income per pig sold	$ 137.94	$ 137.74	$ 149.95	$ 143.04	$ 154.97	$ 160.73	**$ 134.73**	**$ 106.36**
Margin per pig sold	$ 9.97	$ 9.12	$ 15.20	-$ 1.32	$ 2.44	$ 3.33	**-$ 13.47**	**-$ 42.54**
Margin per 100sow herd	$ 18,700.00	$ 16,900.00	$28,300.00	-$2,400.00	$ 4,200.00	$19,200.00	**-$24,600.00**	**-$ 19,000.00**

There is strong evidence that production costs decreased in 1997/98 as the cost of feed ingredients came back down from the heights reached following the poor harvests of the mid 1990s. Feed costs represent roughly 60 per cent of the cost of production. Poor piggery profitability in 1997/98 was due to low prices rather than any increase in production costs. This effect is seen most markedly in the profitability over the last quarter of the 1997/98 year with $42 lost returned for every pig sold [see Fig 1], representing a $19,000 loss. Whilst a small operating loss of $1.32 per pig was reported during the 1994/95 year, throughout the 1990s piggeries returned positive operating margins.

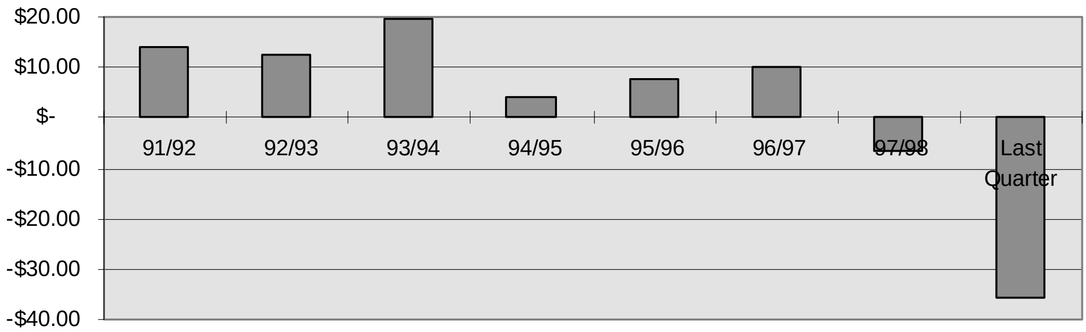
Fig 1. Operating Margin per Pig Sold



Another useful performance indicator to determine the financial performance of the industry is a modified operating margin that takes into account only the cash based fixed costs and variable costs, but excludes depreciation costs. In the PIGSTATS database, depreciation has increased from 3.10 per cent of total costs to 4.15 per cent of total costs over the period 91/92 to 96/97. An estimate of depreciation for the 1997/98 data was made based on the trend in previous years.

The Cash Operating Margin per pig sold in 1997/98 was -$6.47 and for the last quarter of that year was -$35.54 [Fig 2].

Fig 2. Cash Operating Margin per pig sold



PURCHASE PRICES OF FRESH PORK BY THE RETAIL SECTOR

Volume and value of purchases of fresh pork by the meat retail sector (supermarkets and butchers) for 1995/96 and 1996/97 nationally and in NSW show that, at least for those two years, there was an increased average price paid by the retail sector for fresh pork meat.

In 1996/97, supermarkets and butchers in NSW purchased 36,689 tonnes of fresh pork, valued at $135.5 million (at a unit value of $3.69 per kg). This compared to 1995/96 when 40,776 tonnes of fresh pork were purchased, valued at $136.3 million (at a unit value of $3.34 per kg). The unit value paid by retailers in NSW therefore increased by 10.5 per cent between 1995/96 and 1996/97. Between 1995/96 and 1996/97, the unit value also increased nationally, but to a lesser extent. The volume of retailers' purchases fell from 97,746 tonnes to 91,835 tonnes, but increased in value terms from $324.3 million to $333.8 million. The unit value of pigmeat purchased therefore increased from $3.32 per kg to $3.63 per kg, or 9.5 per cent.

The average quarterly retail price of pork leg in Sydney was $5.11 per kg in June 1998, down from $5.76 per kg in December 1997 and $6.15 per kg in December 1996 (the highest quarterly average price on record since March 1987).

IMPORTS OF PIG MEAT

Australia:

Total Australian imports of pigmeat have also fallen in value terms, from $41.2 million in 1996/97 to $39.9 million in 1997/98, or 3.2 per cent (see Table 3 in Appendix). Imports of frozen pigmeat fell from $35.2 million in 1996/97 to $30.9 million in 1997/98, offset by increased imports of "prepared or preserved" pigmeat (up from $5.5 million in 1996/97 to $8.4 million in 1997/98).

In volume terms, Australia's imports of pigmeat increased slightly, from 9,985 tonnes in 1996/97 to 10,176 tonnes in 1997/98, or 1.9 per cent. The combined impact of the shifts in import value and volume was a fall in the unit value of Australia's imports, from $4.12 per kg in 1996/97 to $3.92 in 1997/98.

Although Australia's imports of pigmeat fell in value terms, and increased only marginally in volume terms, last financial year, the levels now are much higher than they were in 1995/96 when

Australia imported just 4,132 tonnes of pigmeat, valued at $15.6 million. Imports have therefore more than doubled compared to two years ago.

New South Wales

NSW imports of pigmeat were valued at $20.6 million in 1997/98, down from $23.3 million in 1996/97. Frozen pigmeat was by far the biggest component of pigmeat imports in both years, contributing $21.7 million or 90.4 per cent in 1997/98 and $18.7 million or 93.1 per cent in 1996/97. The only other significant component of pigmeat imports was "prepared or preserved meat and offal of swine" (see Table 1 in Appendix).

Total NSW imports of pigmeat also fell in volume terms between 1996/97 and 1997/98, from 5,678 tonnes to 5,294 tonnes (or 6.8 per cent). Imports of frozen pigmeat dropped from 5,279 tonnes in 1996/97 to 4,799 tonnes in 1997/98, a 9.1 per cent decline.

Thus, in contrast to the increase in the unit value of fresh pig meat purchased by the retail sector between 1995/96 and 1996/97, the unit value (value divided by volume) of NSW pigmeat imports fell from $4.10 per kg in 1996/97 to $3.90 per kg in 1997/98. For frozen pigmeat imports, the fall was slightly more pronounced, from $4.11 per kg in 1996/97 to $3.89 per kg in 1997/98 (see Table 2 in Appendix).

NSW has been the major entry point for Australian imports of frozen pigmeat in the last two years, taking 61.5 per cent of shipments by value in 1996/97, and 60.4 per cent by value in 1997/98 (see Table 4 in Appendix). NSW also accounts for a large proportion of Australian imports of fresh and chilled pigmeat and prepared and preserved pigmeat.

The two major components of NSW's pigmeat imports are frozen pigmeat and prepared or preserved pigmeat. Together, these two components accounted for 99.3 per cent of total pigmeat imports by NSW in 1997/98. Canada is the primary source of frozen pigmeat - making up 98.9 per cent of NSW imports in 1996/97 and 100 per cent in 1997/98. NSW imports from Canada actually fell by 12.9 per cent in 1997/98 from $21.4 million to $18.7 million. China, the Philippines and the USA were the only other suppliers of frozen pigmeat to NSW.

For Australia as a whole the picture was much the same in terms of imports of frozen pigmeat, with Canada supplying 99.0 per cent of imports in 1996/97 and almost 100 per cent of imports in 1997/98. The value of Australia's imports from Canada fell by 11.3 per cent between 1996/97 and 1997/98, from $34.9 million to $30.9 million.

For prepared and preserved pigmeat and offal, the Netherlands was the biggest supplier of NSW's imports, followed by Ireland and China. Canada was only a minor supplier with less than $100,000 in imports in 1996/97 and no imports in 1997/98 (all Canadian imports in 1996/97 arrived via NSW). For Australia as a whole, the USA was the major supplier in both years, contributing 62 per cent of imports in 1997/98.

EXPORTS OF PIG MEAT

Exports of pigmeat from NSW fell marginally between 1996/97 and 1997/98, from $18.0 million to $17.2 million. Exports of frozen pigmeat fell from $15.2 million to $11.0 million (or 27.7 per cent), offset by increased exports of fresh or chilled pigmeat (up from $0.9 million in 1996/97 to $4.9 million in 1997/98). The trade balance for frozen pigmeat was -$7.7 million in 1997/98, down from -$6.4 million in 1996/97.

Exports of pigmeat from Australia increased strongly last financial year, reaching $56.4 million, compared to $39.2 million in 1996/97 (an increase of 43.8 per cent). The trade balance for frozen pigmeat was actually $14.8 million in Australia's favour in 1997/98, up from a $3.3 million deficit in 1996/97.

Frozen pigmeat was the major component of NSW's pigmeat exports, with live pigs and fresh or chilled pigmeat also making significant contributions. NSW's exports of frozen pigmeat were concentrated in Europe in 1996/97 with France and Germany the major destinations and Russia, the Netherlands and Belgium-Luxembourg also being significant markets (see Table 5 in Appendix). In 1997/98, the picture changed somewhat with sales to France and Germany dropping off and New Zealand and Japan becoming the major markets for frozen pigmeat.

For Australia, the major export markets were the same as for NSW. However, while NSW's exports to Japan increased strongly in 1997/98, Australia's exports more the quadrupled to reach $18.5 million, making Japan the major market for Australia's pigmeat exports with $23.5 million or 41.6 per cent of total exports across all categories.

CONCLUSION

The NSW Government is committed to working in partnership with industry groups to ensure that the pig production industry is more efficient, competitive and environmentally sustainable. The industry involves significant infrastructure and jobs in regional NSW, and therefore continues to be valuable to this State in both economic and social terms.

There has been a high degree of rationalisation in the industry already. There is evidence of significant structural change and in the development of new export markets. There is also substantial and well documented information on advances in production efficiencies.

The Australian and NSW pig production industry needs to continue to adjust to the new competitive environment created by the removal of some quarantine prohibitions on imports of pigmeat to Australia, and the consequent influx of product from Canada and other markets which has now taken a significant share of the local market.

The NSW Government favours institutional arrangements which position the domestic industry to successfully perform in the competitive global market, and most importantly, will encourage a smooth and orderly rationalisation of the pigmeat industry. We therefore support, in principle, measures to facilitate industry adjustment which are consistent with the procedures and criteria established under the WTO Agreement on Safeguards.

REFERENCES

Australian Bureau of Statistics, Unpublished Trade Data for NSW and Australia at 5-Digit Level, 1996/97 and 1997/98.

Industry Commission (1995), *Pigs and Pigmeat*, Research Report, AGPS, Canberra (and submissions to the Inquiry, Industry Commission, Canberra).

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Pork Council of Australia (1998), *The Pork Industry Crisis: Government Perceptions and Industry Facts*, Press Release May 1998.

APPENDIX

AUSTRALIAN AND NEW SOUTH WALES TRADE IN PIGMEAT

Table 1. New South Wales Imports and Exports of Pigmeat

SITC - 5 digit	Description	1996/97 Imports $m	1996/97 Imports kg	1997/98 Imports $m	1997/98 Imports kg	1996/97 Exports $m	1996/97 Exports kg	1997/98 Exports $m	1997/98 Exports kg
00131	Live pure bred swine, for breeding	0	0	0	0	564,700	776 (number)	83,450	34 (number)
00139	Live swine*	0	0	0	0	0	0	0	0
01221	Fresh or chilled meat of swine	219,581	50,199	64,427	16,573	888,879	181,950	4,946,659	827,271
01222	Frozen meat of swine**	21,676,673	5,278,877	18,669,602	4,799,098	15,246,837	3,061,579	11,018,321	2,855,985
01253	Fresh or chilled edible offal of swine	0	0	0	0	0	0	28,534	10,524
01254	Frozen edible offal of swine	0	0	0	0	481,645	299,588	643,059	485,315
01611	Hams, shoulders and cuts thereof, with bone in, of swine	0	0	0	0	19,402	1,807	13,537	912
01612	Bellies (streaky) and cuts thereof of swine	0	0	0	0	10,982	1,747	23,143	3,630
01619	Dried, salted or smoked meat of swine***	91,715	18,815	76,181	30,580	408,335	167,093	243,884	58,692
01750	Prepared or preserved meat and offal of swine, nes****	1,305,616	329,941	1,837,492	448,125	392,810	55,796	210,530	28,456
	Total Pigmeat	23,293,585	5,677,832	20,647,702	5,294,376	18,013,590	3,769,571	17,211,117	4,270,785

*excluding pure bred breeding stock
**all 1997/98 imports from Canada ($21.44 million in 1996/97), nil exports to Canada 1996/97 and 1997/9
***excluding hams, shoulders, bellies and cuts thereof
****excluding liver
Source: ABS unpublished data, SITC 5 digit

Table 2. Unit Value for Pigmeat Imports - NSW

SITC - 5 digit	Description	Unit value 1996/97 ($)	Unit Value 1997/98 ($)
01221	Fresh or chilled meat of swine	4.37	3.89
01222	Frozen meat of swine	4.11	3.89
01619	Dried, salted or smoked meat of swine	4.87	2.49
01750	Prepared or preserved meat and offal of swine, nes	3.96	4.10
	Total Pigmeat	4.10	3.90

Source: ABS unpublished data.

Table 3. Australian Imports and Exports of Pigmeat, $A

SITC - 5 digit	Description	1996/97 Imports	1997/98 Imports	1996/97 Exports	1997/98 Exports
00131	Live pure bred swine, for breeding	0	0	1,348,839	344,973
00139	Live swine*	0	0	2,000	720,003
01221	Fresh or chilled meat of swine	219,581	383,916	1,311,175	5,862,893
01222	Frozen meat of swine**	35,218,959	30,918,790	31,880,446	45,652,160
01253	Fresh or chilled edible offal of swine	0	0	51,103	40,057
01254	Frozen edible offal of swine	0	0	1,784,101	2,491,072
01611	Hams, shoulders and cuts thereof, with bone in, of swine	0	209	33,841	35,487
01612	Bellies (streaky) and cuts thereof of swine	0	0	42,563	23,143
01619	Dried, salted or smoked meat of swine***	246,681	162,530	928,124	485,144
01750	Prepared or preserved meat and offal of swine, nes****	5,496,649	8,386,418	1,842,132	761,731
	Total Pigmeat	41,181,870	39,851,863	39,224,324	56,416,663

*excluding pure bred breeding stock
**Imports of $30.91 million from Canada in 1997/98 (down from $34.86 million in 1996/97), nil exports to Canada 1996/97 and 1997/98
***excluding hams, shoulders, bellies and cuts thereof

****excluding liver
Source: ABS unpublished data, SITC 5 digit

Table 4. NSW Contribution to Pigmeat Trade, $A

	Imports		Exports	
	1996/97	1997/98	1996/97	1997/98
Fresh & Chilled Pigmeat:				
NSW	219,581	64,427	888,879	4,946,659
Australia	219,581	383,916	1,311,175	5,862,893
NSW % of Aust.	100.0	16.8	67.8	84.4
Frozen Pigmeat:				
NSW	21,676,673	18,669,602	15,246,837	11,018,321
Australia	35,218,959	30,918,790	31,880,446	45,652,160
NSW % of Aust.	61.5	60.4	47.8	24.1
Prepared and Preserved Pigmeat:				
NSW	1,305,616	1,837,492	392,810	210,530
Australia	5,496,649	8,386,418	1,842,132	761,731
NSW % of Aust.	23.8	21.9	21.3	27.6

Source: ABS unpublished data, SITC 5 digit

Table 5. Major Components of Pigmeat Imports by Country, $A

	NSW		Australia	
	1996/97	1997/98	1996/97	1997/98
Frozen pigmeat:				
Canada	21,440,070	18,669,602	34,864,529	30,908,771
China	82,372	0	82,372	0
Philippines	80,877	0	80,877	0
USA	73,354	0	191,181	0
Prepared or preserved pigmeat and offal:				
Netherlands	591,175	1,254,049	2,315,548	2,052,796
Ireland	374,885	202,730	374,885	202,730
China	219,720	361,596	258,411	511,027
Canada	77,933	0	77,933	0
USA	659	0	2,374,098	5,200,777

Source: ABS unpublished data.

Table 6. Major Components of Pigmeat Exports by Country, $A

	NSW		Australia	
	1996/97	1997/98	1996/97	1997/98
Live Pigs:				
Philippines	564,700	0	1,238,339	924,506
Fresh or Chilled Pigmeat:				
New Zealand	406,245	23,699	406,245	216,468
Japan	284,371	4,731,054	293,420	4,753,230
Frozen Pigmeat:				
France	3,763,383	412,931	7,535,729	4,684,570
Germany	3,553,400	1,014,714	9,488,843	5,036,372
New Zealand	2,390,543	2,750,723	3,811,298	5,439,207
Japan	1,963,132	3,644,766	3,540,725	18,514,633
Russia	722,602	751,877	1,546,420	4,484,884
Netherlands	455,546	536,374	697,918	3,468,401
Belgium-Luxembourg	243,748	0	1,126,477	211,416