

21 November 2007

Mr. Gary Banks  
Chairman  
Pigmeats Safeguard Inquiry  
Productivity Commission  
Locked Bag 2  
Collins Street East  
MELBURNE VIC 8003

Dear Mr. Banks,

Danske Slagterier is pleased to put forward a submission to the Australian Productivity Commission's Pig meat Safeguard Inquiry.

By way of background Danske Slagterier, known in English as the Danish Bacon and Meat Council, or DBMC for short, is the umbrella organisation for the two Danish slaughterhouse companies, Danish Crown and Tican.

A number of companies owned by Danish Crown and Tican or otherwise industry related companies are also members of DBMC. Members of DBMC account for almost 100 per cent of the Danish pig meat export.

With this background of introduction DBMC is submitting the following comments to be considered by the Australian Productivity Commission when conducting its safeguards inquiry into the import of pig meat:

#### 1. General comments

The Productivity Commission has clearly defined that the imports subject to inquiry is "Meat of Swine, Frozen, falling within tariff subheading 0203.29", which however includes a number of items excluded from entry into Australia by SPS-measures as explained under point 2.

It is however very difficult to produce a submission without an equivalently clear definition of the Australian industry subject to the safeguards inquiry. Based on findings of the WTO Appellate Body – as also quoted in the Productivity Commission's issues paper – the Australian industry subject to competition with imported frozen pig meat should be defined as integrated de-boning- and processing facilities. It is however not clear if the Productivity Commission also wants to include the pig farmers under the industry definition, but this would be inconsistent with WTO jurisprudence.

From the Danish side we will do our best to supply the Productivity Commission with all additional knowledge about Danish production and export matters that might be requested during the inquiry. Concerning Australian matters we do not have the same professional knowledge and we therefore welcome the transparent inquiry procedure.

#### 2. Limitations of import competition.

Australia maintains one of the most stringent quarantine systems in the world. Among the worlds major exporters of pig meat only the USA, Canada and Denmark can currently supply frozen pig

meat to Australia and only if de-boned and then only if heat-treated after arrival to Australia adding additional costs to the use of imported raw materials. Finally the containers arriving with frozen pig meat are not allowed transported through rural areas before heat-treatment has taken place. This transport restriction is adding further difficulties to the use of imported raw materials.

Due to these SPS-requirements the imported pig meat is excluded from the following market segments:

- The retail market for fresh/frozen pig meat
- The market for supplying bone-in products to the Australian meat processing industry (as an example bone-in hams for the production of very important traditional Christmas Hams)
- The market for supplying raw materials to processors located in rural areas.

In sum, all imports of frozen pig meat are exclusively used in the processing industry, after being heat-treated.

With this background, when evaluating the effect of imports the Productivity Commission should take into consideration that the Australian industry is only exposed to limited competition from imported products because the SPS-requirements results in exclusion of any imports to important segments of the Australian home market. The additional costs to comply with heat-treatment requirements are furthermore granting a competitive advantage to Australian raw materials in those market segments where imported frozen pig meat is allowed access.

The size of the market segment where pig meat of Australian origin compete with imports can be estimated by using the data available in the Productivity Commission's website<sup>1</sup>, and the information contained in the pig farmers submissions to the Productivity Commission. In particular, given that imports would constitute over 65% of the meat going into the processing sector<sup>2</sup>, and given that imports go exclusively to processors, it can be calculated that imports compete with less than 30% of the Australian market of the like or directly competitive product. The table below illustrates how to calculate, firstly, the Australian consumption on the basis of production, import and export data and, secondly, the imports' market share:

	2005	2006
	(tonnes)	(tonnes)
Production <sup>1)</sup>	390,337	382,682
Import <sup>1)</sup>	78,139	81,385
<b>Total</b>	<b>468,476</b>	<b>464,067</b>
Export <sup>1)</sup>	15,017	14,358
<b>Consumption</b>	<b>453,459</b>	<b>449,709</b>
Processing share of total consumption <sup>2)</sup> (estimated figure)	121,000	127,000
%-share	27%	28%

<sup>1</sup> [http://www.pc.gov.au/data/assets/excel\\_doc/0003/72291/Web\\_Data2.xls](http://www.pc.gov.au/data/assets/excel_doc/0003/72291/Web_Data2.xls)

<sup>2</sup> Westporks's submission (last page) available on the website [http://www.pc.gov.au/data/assets/pdf\\_file/0019/72217/sub003.pdf](http://www.pc.gov.au/data/assets/pdf_file/0019/72217/sub003.pdf)

Moreover the less than 30 per cent segment is however further reduced specifically due to the ban on importing bone-in frozen pig meat and also to some extent due to transportation limitations. It is therefore estimated that as a result of these SPS-limitations Australian pig meat does not enter into competition with imports on approximately 80 per cent of the total market.

### 3. Danish exports to Australia

In 1998 Denmark achieved access to the Australian market for frozen pig meat – however subject to SPS limitations as described under point 2 above. The attached Annex shows in detail the development of Danish pig meat exports to Australia since then, which can be summarized as follows:

<u>Danish pig meat exports to Australia in tonnes</u>	Frozen pig meat (0203.29)	Other (Cooked, sausages etc.)	Total
1998 (Test deliveries)	9	140	149
1999	7,054	1,308	8,362
2000	16,765	904	17,669
2001 (Temp. imp. Ban )	10,507	132	10,639
2002	15,215	260	15,475
2003	23,176	911	24,087
2004	26,151	1,950	28,101
2005 (Import system)	26,375	600	26,975
2006	28,622	339	28,961
2007 (Est.)	29,043	457	29,500

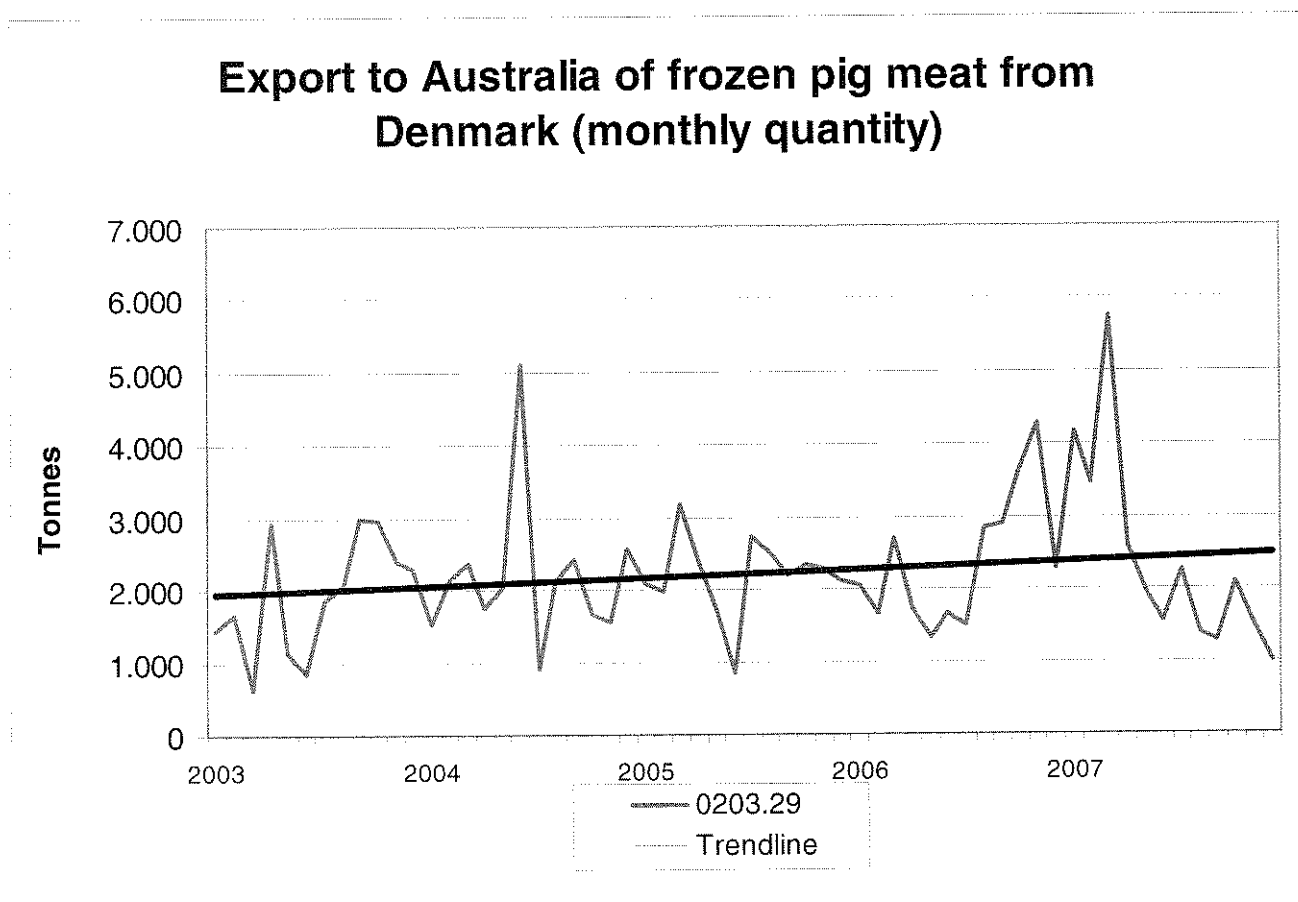
Source: Official Danish Export Statistics

The development in quantities should be seen in light of and explained by the following comments:

- In the first year 1998 of access for frozen Danish pig meat only a few tonnes were exported to establish, test and achieve authority approval of the required heat-treatment procedures etc. in Australia.
- Following successful trials, a commercial export started to be developed in 1999 and 2000.
- In 2001 this development was broken due to a 4 month long Australian ban on imports of frozen pig meat from Denmark.
- During the period 2002 – 2004 the Danish exporters re-established a position in the market following the lifting of the Australian import ban.
- The slight contraction in 2005 of the Danish export level is most likely to be explained by the questioning of the legality of the Australian import system in that year. Especially the initial determination by the Federal Court, which was subsequently overturned on appeal, which created a temporary uncertainty and hesitance towards imports.
- Since 2005 Denmark has again re-established its position on the Australian market and in 2007 the export quantity of frozen pig meat is expected to be almost 30,000 tonnes.

Taking these comments into account, exports of frozen pig meat from Denmark to Australia would appear to have developed very modestly in the period relevant to the Productivity Commission's Inquiry. This is also expected to be the case in 2007 where the total export quantity is expected to be less than 5 per cent above the equivalent quantity exported in 2006.

The attached Annex provides official Danish export statistics on a monthly basis since 1998 on quantities and values of pig meat exported from Denmark to Australia. In recent years the development can be summarized as in the figure below. As it appears like on many other export markets there is significant variations between monthly figures. This is due to random variations in statistical registration procedures. Furthermore developments are influenced by seasonality and fluctuations in market conditions. The overall trend is therefore the most important indicator of developments in imports of frozen pig meat.



Source: Official Danish Export Statistics

Official Danish export statistics are only available until September 2007. For October 2007 the quantities in the Annex is a DBMC estimate based on actual export shipment data collected among the Danish exporters. Concerning November and December 2007 the DBMC estimate is based on exporters actual early November shipping and planned shipments for the rest of the year. DMBC has only estimates of the quantities exported available for the last 3 months of 2007 and not value.

Due to time lag in recording of the Danish export statistics and Australian import statistics there are differences between the monthly data, but the results of the two sets of data will however inevitably be the same over time.

The Danish export of frozen pig meat has a very constant composition where the overwhelming part is middles for production of bacon. The export sales prices in Australia have been increasing. In DKR and EURO the average price of frozen pig meat to Australia from Denmark increased 7 per cent from 2005 to 2006 and 6 per cent from 2006 to 2007 (Jan.-Aug.).

Concerning future long term developments we expect stability around a yearly export level of approximately 30,000 tonnes.

#### 4. Total imports

Concerning the development in the overall Australian import of frozen pig meat, DBMC is unable to add information concerning US and Canadian export-data.

When evaluating the total import development longer term, it must also be taken into consideration that the USA has only been able to export to Australia since 2004.

As in the case of the Danish monthly export statistics we would expect also US and Canadian data to show reverse fluctuations in the first half of 2006 and 2007 followed in turn by low export levels in the second half of 2007 compared with high levels in the second half of 2006. This expectation is also reflected by the Australian import statistics-declining trend for total imports of frozen pork since May 2007.

On this background we assume it will be difficult to conclude that the import of frozen pig meat has been recently, suddenly, sharply or significantly increasing.

#### 5. Safeguard and serious injury?

To the best of our knowledge imports of frozen pig meat has **not** caused serious injury to the Australian meat industry. Indeed, imports have only developed modestly and due to SPS limitations imports are only competing with Australian pig meat on a limited market segment.

It can even be considered that imports contributed positively to the development of the Australian industry, when defined as integrated de-boning- and processing facilities as mentioned under point 1. With imported raw materials it has been possible to further develop the market for processed products and bacon. New jobs have been created in the processing industry and consumers have got a wider choice.

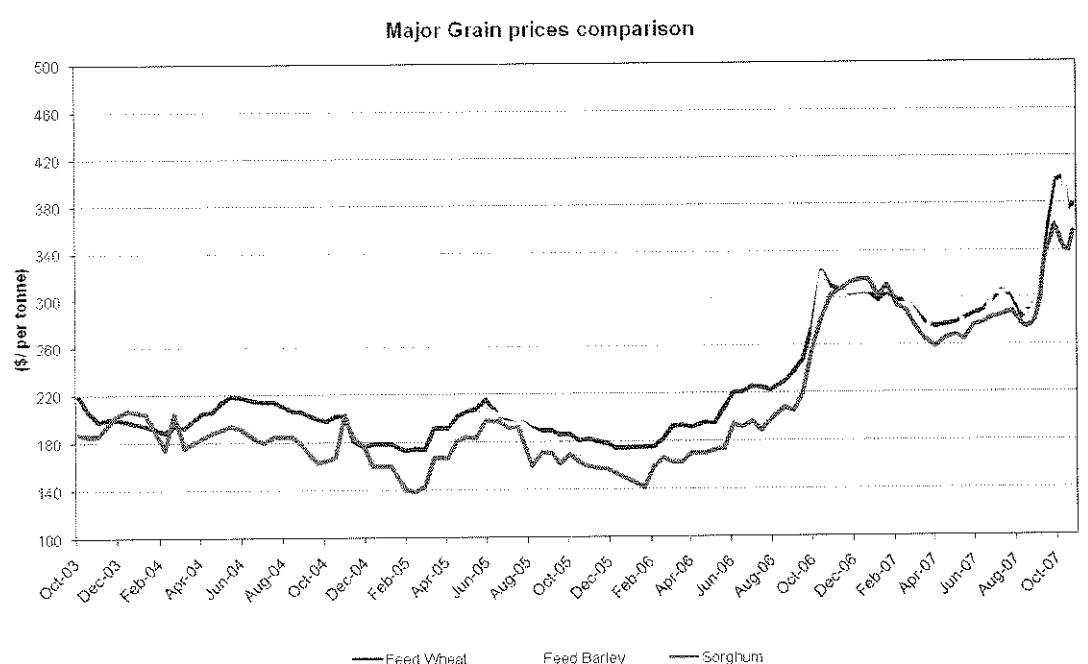
Concerning the Australian pig farmers DBMC should like to express a deep sympathy towards the very difficult economic situation, which exists at present. This unfortunate situation is however not due to developments in imports of pig meat but due to a number of other factors among which the following should be mentioned:

- Extreme increases in feed costs.
- The Australian feed costs increases have been exaggerated by the extreme drought.
- Due to SPS limitations it is not possible to perform normal imports of feed as compensation for failing Australian harvest.
- New export opportunities for feed-lot cattle to Japan have in recent years increased demand for feed grains and contributed to additional increasing feed costs.

- Due to the drought, the cattle herds have been/ are being reduced leading to additional overall meat supply putting a downward pressure on the pig meat market due to the cross elasticity substitution.
- Due to SPS limitations on imports of breeding animals, Australian farmers cannot increase production efficiency to the highest possible level.

The increase in feed costs in Australia and the resulting consequences on the situation of pig farmers is illustrated as follows:

1. The graph below clearly shows that feed costs have significantly increased in the last months. According to the sources available (ABS and APL) the Australian feed costs are at present at least app. 80 pct. higher than one year ago



Source: Eyes & Ears, Market News for the Australian Pork Industry

<http://www.australianpork.com.au/media/ISSUE%20%23%20254%2025th%20October%202007%20Epdf>

2. According to documentation<sup>3</sup> used by Mr. Andrew Spencer, CEO of Australian Pork Limited (APL) in APL's recent Members Road-show (15/10 – 2/11/07) the present profitability position for the farmers producing pigs is illustrated by the following figures:

	\$A/kg carcase
- Feed Costs	2.00
- Other Costs	1.00
- Total Costs	3.00
- Average sales price	2.30
- Loss	0.70

<sup>3</sup> See: <http://www.australianpork.com.au/index.cfm?menuid=45B08C81-5056-9020-7A0527851221FA2A>

With an average carcase weight of 71 kg the farmer is therefore at present loosing \$A49.70 per pig produced.

3. As mentioned above the Australian feed costs are at present at least approximately 80 per cent higher than one year ago. If the feed prices had remained stable Australian farmers would at present be producing pigs with a profit of \$A0.19 /kg or \$A13.49 /pig instead of the present loss of \$A49.70 /pig.

4. The basis for Mr. Andrew Spencer's calculation is:

- Costs of grain/tonne.....\$A400
- Other costs of feed/tonne .....\$A100
- Total feed costs/tonne..... \$A500
- Herds Feed Conversion (kg feed/kg carcase).....4.00

It should be noted that according to APL the Australian average feed conversion rate is 4.00. In Denmark the equivalent average feed conversion rate is 3.6. The difference can at our best estimate be explained by the fact that Australian farmers are unable to access efficient genes due to SPS limitations on imports of genetic stock. If pigs were produced with the same feed conversion rate in Australia as in Denmark the present profitability would be increased with \$A0.20 /kg or \$A14.2 /pig at the present high grain prices.

5. If the feed costs had remained unchanged over the last year and if the Australian feed conversion rate had been on international/Danish level, the profitability would at present be:

	\$A/kg carcase
- Actual feed costs	2.00
- 80 per cent reduction to prices one year ago	-0.89
- Adjustment of feed conversion from 4.00 to 3.6	-0.11
- <u>Other costs</u>	<u>1.00</u>
- Total costs	2.00
- <u>Average price</u>	<u>2.30</u>
- Profit	0.30 Dollar
- Profit/produced pig.....	\$A21.30

6. It should be noted that according to APL statistics on farm gate prices the present price level for pigs is approximately \$A0.25 /kg lower than one year ago.

7. In summary if feed costs and pig prices had remained unchanged as compared to their previous year level and if the Australian feed conversion rate had been on international level the profitability situation would have been:

	\$A/kg carcase
- Unchanged feed costs	+0.89
- International feed conversion standard	+0.11
- <u>Unchanged price</u>	<u>+0.25</u>
- Total	+1.25

An increase of \$A1.25 would change the profitability from a loss of \$A0.70 /kg to a profit of \$A0.55 /kg.

It can be questioned to what extent imports of frozen pig meat is the reason for the change in market price. We would estimate that the overall increase in meat supply due to cattle herd reductions is the main reason for the present pressure on market prices. Even if it were argued that imports of frozen pig meat had caused one third of the price change the result would be that less than 10 per cent of the change in profitability in pig farming in Australia is due to imports.

In any event, even when taking into account the current pig price level, but considering that feed costs had remained unchanged compared to one year ago and that Australian feed conversion rate had been at international level, a typical farmer producing 5000 pigs would make a yearly profit of more than \$A100,000.

As it appears from the above calculations it would be very difficult to find arguments that imports are to blame from the very difficult situation of the Australian pig farmers. But this of course without prejudice to the conclusion that pig farmers should not be considered the valid industry in this case as mentioned above.

## 6. Conclusion

In conclusion DBMC submits the following to the Australian Productivity Commissions safeguards inquiry into the import of pig meat:

- Developments in imports of frozen pig meat are not recent enough, sharp enough, sudden enough or significant enough to justify introduction of safeguard measures.
- Due to SPS requirements Australian pig meat does not compete with imports on approximately 80 per cent of the Australian home market.
- Imports have a positive effect on the over all Australian industry defined as integrated deboning- and processing facilities (ref. definition WTO Lamb, DS 177, 178)
- Due to imports it has been possible to further develop the market for processed products and bacon. New jobs have been created and consumers have been given a wider choice.
- The Australian farmers economic difficulties are due to a number of other factors than imports. These "other factors" are the reason for more than 90 per cent of the change in farming profitability over the last year.

In addition to the present submission DBMC is available to answer any question arising from the Productivity Commission during the Inquiry process.

Yours Sincerely

Knud Buhl