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SUBMISSION TO THE PRODUCTIVITY COMMISSION

Safeguards Inquiry into the Import of Pigmeat

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This submission contains **NO** confidential material

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Canada Pork International (CPI) jointly represents the Canadian Pork Council, the national association of provincial hog producers' organizations, and the Canadian Meat Council, the national association of meat packing, processing and trading companies, and its members in pork trade and export matters. Our submission represents the views of the Canadian pork industry, since our members account for nearly 100 per cent of the Canadian pork exports to Australia.

Inquiry's Terms of Reference

It is our understanding that the terms of reference as set by the Government of Australia request the Productivity Commission to undertake an inquiry into the question of whether safeguard action is warranted against imports of meat of swine, frozen, falling within tariff subheading 0203.29 of the Australian Customs Tariff. In brief, the Productivity Commission is thus required to report on whether conditions are such that safeguard measures would be justified under the WTO Agreements, on what measures would be necessary and on whether those measures should be implemented.

We also noted that the Commission has also been asked to look at the competitiveness of the Australian pork industry and identify the impact of changes in the price and availability of feed grains.

Domestic Industry and Product Definition

In our view, the terms of reference for this inquiry clearly state that the current inquiry must be undertaken in accordance with the WTO safeguard investigation procedures.

Given that the product subject to the inquiry is clearly defined as frozen boneless meat of swine imported under Australian tariff heading 0203.29, the definition of the affected "domestic industry" can only apply to producers of like or directly competitive products as stated in the WTO Agreement on Safeguards. In this particular case, it could only include producers of frozen and boneless pigmeat, namely Australian abattoirs and boning rooms where like products are processed. Since the Productivity Commission is expected to undertake this inquiry in accordance to WTO procedures and jurisprudence, the definition of domestic industry should not in this case include growers and feeders of live swine.

Safeguard and Serious Injury

It is also our understanding that in accordance with the WTO Agreement on Safeguards, the Productivity Commission in order to recommend a safeguard action will have to demonstrate that the domestic industry is seriously injured by like imports or is facing a serious injury threat from those same imported products. There is no reason for the Canadian industry to question the relevance of this enquiry nor the expertise of the Productivity Commission to carry it out in a professional and balanced manner.

When it comes to any safeguard determination, the Canadian pork industry is still convinced that Australian producers of the like product, namely abattoirs and boning facilities, have not been injured by imports in general and imports of Canadian origin in particular. In all likelihood the processors have benefited from the diversity of supply opportunities, otherwise the choice would not have been made to source Canadian imports.

As far as we know, imports of frozen boneless pigmeat have not caused or are not likely to cause serious injuries to the Australian. Unless proven otherwise, we cannot foresee on what grounds the Productivity Commission could even envisage recommending safeguard action against frozen boneless pigmeat imported under the specified tariff heading.

Australia's Pigmeat Imports

According to Statistics Canada, Canadian exports of frozen boneless pigmeat to Australia have slightly increased between 2004 (34,497 tonnes) and 2006 (37,193 tonnes). In the first 9 months of 2007, they amounted to 29,280 tonnes, compared to 26,439 tonnes during the same period in 2006. Given that shipments in November and December are not expected to be as high as in last year, we foresee Canadian exports of frozen boneless pigmeat to at best reach 40,000 tonnes at the end of this year.

We noted that the mandate of the Commission is to seek evidence that increased imports have caused a deterioration in the performance of the industry. Australian import statistics show a declining trend in total imports of frozen pork since May 2007. If imports were a significant contributing factor in the recent performance of the Australian pork industry, such a decline should somehow translate into an improvement of its profitability. However, it does not seem to be the case which would suggest that other factors play a much more important role.

Several Australian industry stakeholders and outside analysts have publicly acknowledged that drought-induced high feed costs and the inability to access cheaper foreign feed ingredients constituted by far the major problems that the industry had to face.

Competitiveness of the Australian live hog industry

From our perspective, it is always difficult to understand why the Australian pork industry, which is located in a technologically advanced country, which has definite climatic advantages over its competitors, which receives a much higher price for its animals than its competitors, which is protected by the most stringent import quarantine regulations in the world and whose competitors have to incur high transportation costs to reach its market, would have such a difficult time to compete.

There is no denying that the Australian pork industry is going through difficult times, but the circumstances it faces are hardly unique. It is no surprise that it is having a difficult time, since those same conditions exist in the live pig production all over the world now. Pork producers worldwide are also too familiar with increasing feed costs and depressed prices. Add to the mix a currency that is appreciating at a pace never seen before and you will find an industry like ours that is experiencing losses of such a magnitude that it will have a very serious negative impact on its future development.

The world pig market is cyclical, and the low part of the price cycle is caused by excess supply of pork and other competing meats and poor meat demand. The world is now in the low part of the price cycle, but supply will contract at some point, and conditions will improve.

World grain prices are at record levels, so feed costs have increased sharply, at a time of low pork prices. The reasons for increased grain prices are well known, and are drought and poor crops in major world suppliers, plus ethanol driven demand for grain.

The impact of the drought in Australia is severe and is well documented. But Australian pig producers are not the only sector affected. It has been reported that this year's Australia's wheat crop estimates have dropped from 25 million tonnes, to 15 million tonnes (or lower) due to the drought. And it was reported recently that Australia may import grain this year as a drought ameliorization measure.

Pork imports were not responsible for any of the above, and it would be unrealistic for Australian pig producers to believe they would not be similarly affected. Like Australia, Canada is a mature market where consumption patterns are difficult to change and where it makes more sense at times to import some products than trying to become self-sufficient at all costs. For exporting countries, like Australia and Canada, it is important for their meat packers to maximise their returns, but at the same time both cannot afford to overly restrict the quantities of products made available to their domestic processing and food service sectors. When those sectors experience supply difficulties, they have the ability to turn around and substitute with other proteins. It could then become very difficult to regain any market share lost under those circumstances. In what is essentially a commodities market, Canadian exporters of pigmeat to Australia are price takers rather than price setters or leaders, as would be Australian beef exporters to Canada which is an even larger market.

To the extent that the domestic industry can be rendered less competitive by internal structural considerations, input supply issues (e.g., consistency of supply of high-quality feed grains) and foreign exchange developments, imports should not be considered as a cause for industry protection but instead, as a symptom of problems needing to be addressed.

We remain of the opinion that the Australian Government and the various Australian pork industry stakeholders still have to look at all the factors that have an impact on the industry's competitiveness to ensure its long term survival and prosperity. It is in nobody's interest to seeing it seriously weakened. We think that it is wise for the Commission to identify and assess the range of factors which may be affecting the industry's performance. In the list of factors that appear in the Commission's Issues Paper, it is interesting to note that stringent quarantine measures that prevent swine producers of having access to world class genetics and cheaper feed are not even mentioned. We realize that they are very emotional topics in the Australian context, but should they not be openly discussed if all factors affecting the competitiveness of the industry are to be seriously considered?

Conclusion

It is the Canadian pork industry's position that safeguard measures are not warranted in this particular case. There is absolutely no evidence that the domestic industry, in this particular instance abattoirs and boning facilities, has been seriously injured.

The problems that Australian pig farmers are facing need to be addressed, but safeguard actions are not the appropriate remedy.

We remain available to provide any additional information that the Commission may require.