THE GOVERNMENT OF NEW SOUTH WALES

SUBMISSION TO THE PRODUCTIVITY COMMISSION SAFEGUARDS INQUIRY INTO THE IMPORT OF PIGMEAT

NOVEMBER 2007

1. Introduction

The Productivity Commission safeguards inquiry into the import of pigmeat has been initiated during a period of prolonged high input prices and competitive pressure from rising imports, resulting in producer-level financial losses, widespread producer exits and processing plant closures.

While competition from imports is placing significant adjustment pressures on industry participants, the NSW Government acknowledges that any "safeguard measure" introduced could only be applied as a quota, a tariff quota, or an increased level of tariff, with the intention of reducing the quantity of imports to a level no lower than the average over the last three years. It is also recognised that the Productivity Commission cannot make a safeguard determination unless objective evidence demonstrates:

> *the existence of the causal link between increased imports of the product concerned and serious injury or threat thereof. When factors other than increased imports are causing injury to the domestic industry at the same time, such injury shall not be attributed to increased imports[1].*

While the increased industry exposure to world markets has been a major contributing factor to the contraction of the Australian pork industry, there remain a number of measures that can be undertaken nationally to mitigate these influences and improve the competitiveness of the domestic pigmeat industry. The NSW Government makes this submission with the goal of assisting the Commission to increase it's awareness of the considerable domestic and international challenges faced by the NSW pigmeat industry and the courses of action available to the Australian Government.

2. Overview of the Pigmeat Industry

2.1 Global Pigmeat Production

Globally, pork is the most widely consumed form of animal protein, representing around 40 percent of world meat consumption. Generally, pig production is intensive and consequently requires the availability of significant quantities of feed grain.

From Table 1[2] it can be seen that China dominates world pork production. Australia is a minor producer on a world scale, producing 0.38 percent of world pork production and accounting for 0.45 percent of world exports.

[1] Commonwealth of Australia 1998, p. 20

[2] FAOstat, 2007.

Table 1: Pigmeat Producing Countries: 2005

Country	tonnes	%
China	51,200,700	49.60
USA	9,392,000	9.10
Germany	4,499,991	4.36
Brazil	3,110,000	3.01
Spain	3,100,718	3.00
Vietnam	2,288,315	2.22
France	2,257,000	2.19
Poland	1,955,500	1.89
Canada	1,913,520	1.85
Denmark	1,800,000	1.74
Russia	1,520,070	1.47
…….	…….	…….
Australia	388,434	0.38
…….	…….	…….
total world	103,226,200	100.00

Only 10 percent of global pork production is traded. Denmark, Canada and the Netherlands are the leading pork exporters which, along with Belgium, comprise a group of specialist pork exporters that export over 75 percent of their production.[3]

Table 2: Pork Exporting Countries: 2005

Country	tonnes	% world exports	% of domestic production
Denmark	1,560,520	13.42	86.70
Canada	1,507,830	12.97	78.80
Netherlands	1,398,580	12.03	90.00
Spain	878,580	7.56	28.33
Belgium	857,020	7.37	84.47
Germany	842,990	7.25	18.73
Brazil	838,630	7.21	26.97
France	727,370	6.26	32.23
USA	604,010	5.19	6.43
China	470,010	4.04	0.92
Poland	268,720	2.31	13.74
UK	177,630	1.53	25.16
Australia	52,360	0.45	13.48
total world	11,628,120	100.00	

[3] NSW DPI Pork Industry Profile 2006.

2.2 The Australian Pigmeat Industry

Pork represents approximately 3 percent of the gross value of agricultural production in Australia, with around $900 million worth of product produced annually. The industry consists of around 2,000 farms with breeding sows and another 483 farms operating as contract growers. While it is significantly smaller than other Australian meat industries, such as beef (GVP of $7.8 billion), sheepmeat ($1.9 billion) and poultry meat ($1.3 billion), it is an industry that is concentrated in particular regional areas, and therefore is important in supporting particular regional communities.

The Australian pig industry is primarily located in grain producing regions. The quantity of pork produced in each state is affected by factors such as feed grain supplies, infrastructure (transport and processing facilities in particular) and proximity to major population centres. NSW is the largest producing state (31% of production) followed by Queensland (25%), Victoria (16%), South Australia (16%) and Western Australia (11%).

Table 3: Distribution of Australia's Pig Meat Industry: 2005

state	number of farms	pig numbers[4]	pork production[5]	% national production
NSW	714	732,000	119,000	31
Victoria	449	524,000	63,000	16
Queensland	488	666,000	96,000	25
S Australia	488	335,000	63,000	16
W Australia	269	266,000	43,000	11
Tasmania	73	12,000	2,500	1
Australia	2,481	2,535,000	386,500	100

The Australian pork industry has changed significantly from 1970, when there were approximately 40,000 producers with an average herd size of less than 10 sows, to approximately 2,500 producers with an average herd size of just under 160 sows in 2005[6]. In comparison, total sow numbers have remained relatively stable during these years ranging between 300,000 and 350,000 depending on prevailing industry conditions. The most recent data indicates that sow numbers fell to approximately 320,000 in 2005.

2.3 The NSW Pigmeat Industry

Pigmeat production in NSW has increased over the past two decades, from 60,000t in 1981 to over 145,000t in 2002-03. In more recent years, production has fallen in response to increased feedgrain prices and low output prices.

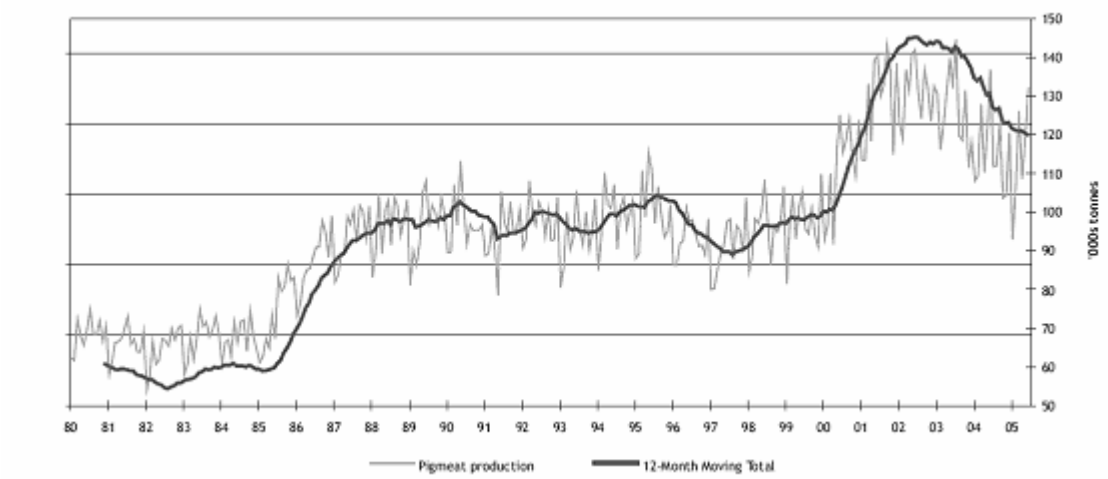
[4] ABARE, Commodity Statistics.

[5] Australian Pork Ltd, www.australianpork.com.au.

[6] Australian Pig Annual 2005.

Slaughtering figures in NSW for 2005 reached 1.6 million, an estimated decline from the previous year of about 5 percent. Average slaughter weight was 74kg and is similar to the previous year.

Figure 1: Pigmeat Production in NSW[7]



The NSW pigmeat industry consists of approximately 600 commercial piggeries with a gross value of production of $267 million. The industry's contribution to the NSW economy includes 754 direct on-farm jobs, and approximately 2,000 jobs in the pork supply chain. About 40 per cent of producers are specialists deriving most of their income from pig production. The majority of farms are small to medium sized family owned operations, with an average herd size of around 130 sows. Approximately 100 producers account for more than 90 per cent of sows kept.

Table 4: Regional Distribution of the Pig Industry in NSW: 2001[8]

Region	no. of breeding sows & gilts	total no. of pigs	sales of pigs (no.)	value pigs slaughtered ($)	no. pig farms
Sydney	3,571	24,972	51,101	8,900,583	27
Hunter	7,964	60,879	81,361	14,171,020	40
Illawarra	1,247	9,353	13,281	2,313,370	7
Richmond/Tweed	9,000	78,470	140,896	24,540,504	99
Northern	10,753	82,652	167,962	29,254,836	135
North Western	5,752	38,825	69,166	12,047,082	121
Central West	9,780	69,242	118,315	20,607,468	253
South Eastern	9,464	87,577	83,574	14,556,642	56
Murrumbidgee	7,430	65,416	122,133	21,272,606	138
Murray	36,501	323,351	737,395	128,435,497	74

[7] Australian Pig Annual 2005.

[8] ABS Agricultural Census 2001.

Pork production is concentrated in the inland grain growing areas of NSW, particularly around Corowa in the Murray region. Changes in agriculture and greater urban and environmental pressures have resulted in production moving away from the coastal areas, although significant production still occurs in Richmond Tweed.

The NSW industry is characterised by a declining number of producers and increasingly larger specialised piggeries and the long term trend indicates a further reduction in the number of piggeries. There also exists a group of 'transient' small producers that enter and exit the industry as conditions (pig and grain price) change.

Fifty percent of piggeries with 50 or more sows mix their own feed, while 50 percent purchase feed. In excess of 500,000 tonnes of stock feed worth approximately $160 million is used annually. Grain constitutes 80 to 85 percent of feed rations with the remaining 15-20 percent coming from protein meals.

Over 90 percent of pigs are sold by direct consignment. The remainder are auctioned with active trading centres at Forbes, Gunnedah, Camden and Windsor. Developing market niches include the 'oven pig' 10-15kg carcase, and other ethnic preferences such as 'barrows' and heavy baconer weights for gourmet sausage production, as well as free range and organic pork.

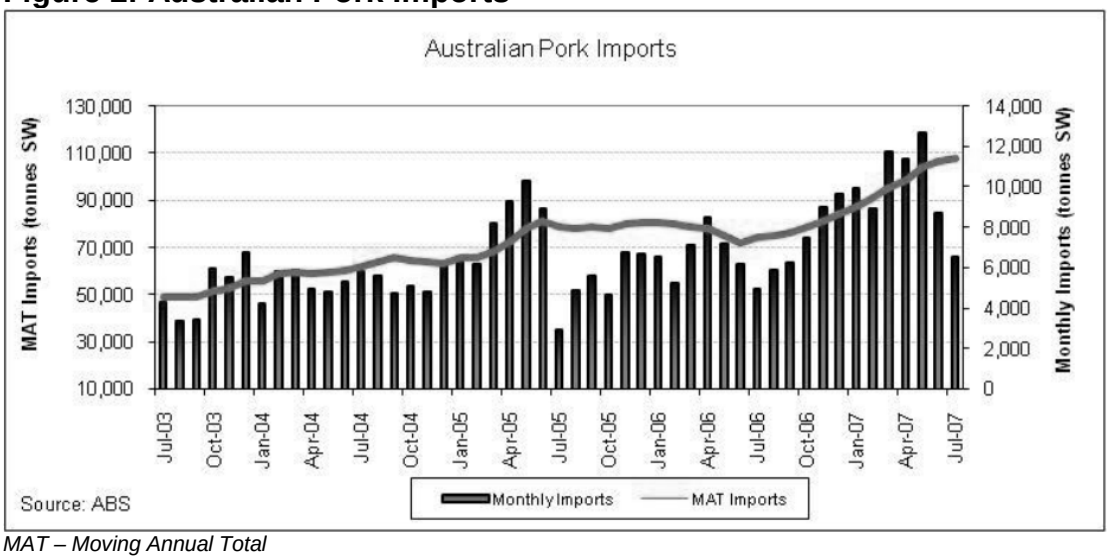
Seven of the top 20 pig slaughter abattoirs in Australia in 2004-05 were located in NSW, with the largest being QAF Meat Industries Pty Ltd in Corowa, Burrangong Meat Processors in Young and Casino RSM Processing Pty Ltd in Booyong on the north coast. Abattoir closures such as Griffith and Cowra in 2006 and the decision to cease slaughtering pigs at Junee and Scone have resulted in farmers facing increased transport costs of $5-$10 per pig, or 6-11 cents per kilogram.

3. Factors Influencing the Profitability of the NSW Pigmeat Industry

3.1 Import Competition

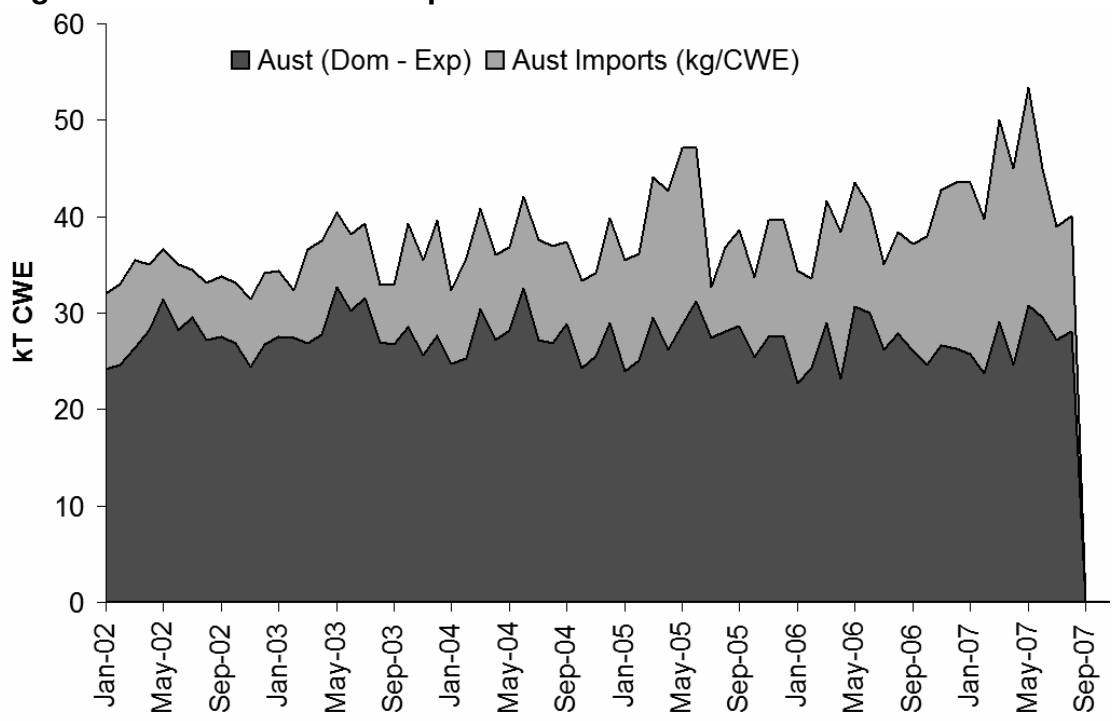
Despite a 55 percent increase in the annual consumption of pig meat in Australia (20.7 kg/person) over the last 30 years, NSW pigmeat producers have experienced declining profitability over an extended period which has been closely linked to import competition. The increasing quantity of imports and the increasing share of domestic consumption represented by imports can be seen from Figures 2 and 3.

Figure 2: Australian Pork Imports[9]



MAT – Moving Annual Total

Figure 3: Domestic Consumption[10]



CWE = Carcase Weight Equivalent *Aust (Dom – Exp) = Domestic Production less Exports*

Imported pig meat in carcass weight equivalent terms comprised only one percent of Australian pig meat consumption in 1990, but by 2002 this share had grown to represent nearly 20 per cent of consumption[11]. Approximately 94 percent of total pig meat imports are fresh, chilled or frozen cuts that must

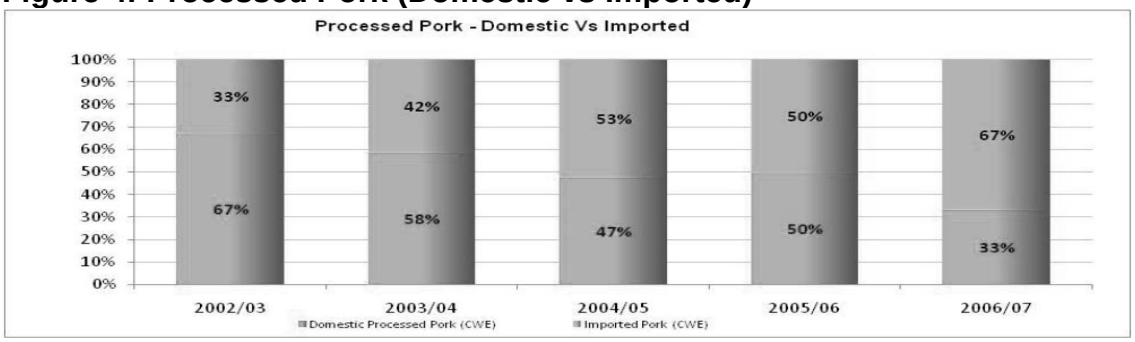
[9] APL (July 2007 Pork Report).

[10] SA Pork Industry Strategic Plan 2007.

[11] Australian Pig Annual 2005, Australian Pork Ltd.

be boned out prior to shipment, cooked on arrival in Australia (as required by quarantine) and used in the manufacturing of bacon, ham and smallgoods[12].

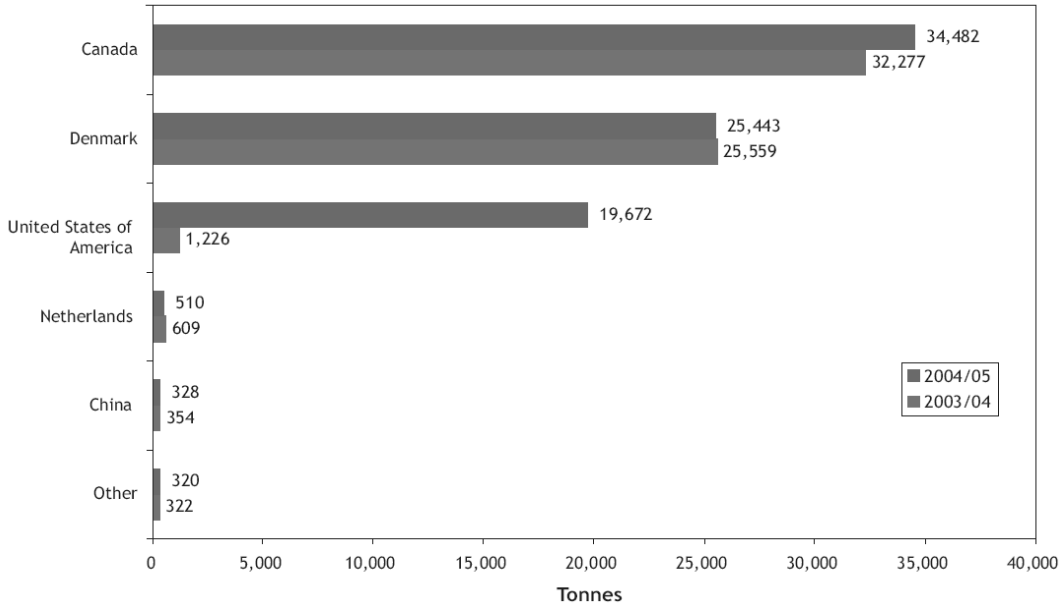
Figure 4: Processed Pork (Domestic vs Imported)[13]



The OECD has estimated that Canadian and Danish producers receive 7 and 26 per cent of their earnings from government, respectively, compared to Australian producers at 4 per cent. Subsidised pork from Canadian and Danish producers accounted for more than 90 per cent of total import quantities in 2002. The adverse impacts of these imports on the domestic pig meat industry have been well-documented[14].

The United States has subsequently emerged as a third major importer into Australia, primarily as a result of improved access following the US-Australia Free Trade Agreement.

Figure 5: Volume of Pigmeat Imports from Selected Countries[15]



[12] NSW DPI Pork Industry Profile 2006.

[13] APL (July 2007 Pork Report).

[14] Productivity Commission 1998, Griffith and Chang 2000.

[15] APL (July 2007 Pork Report).

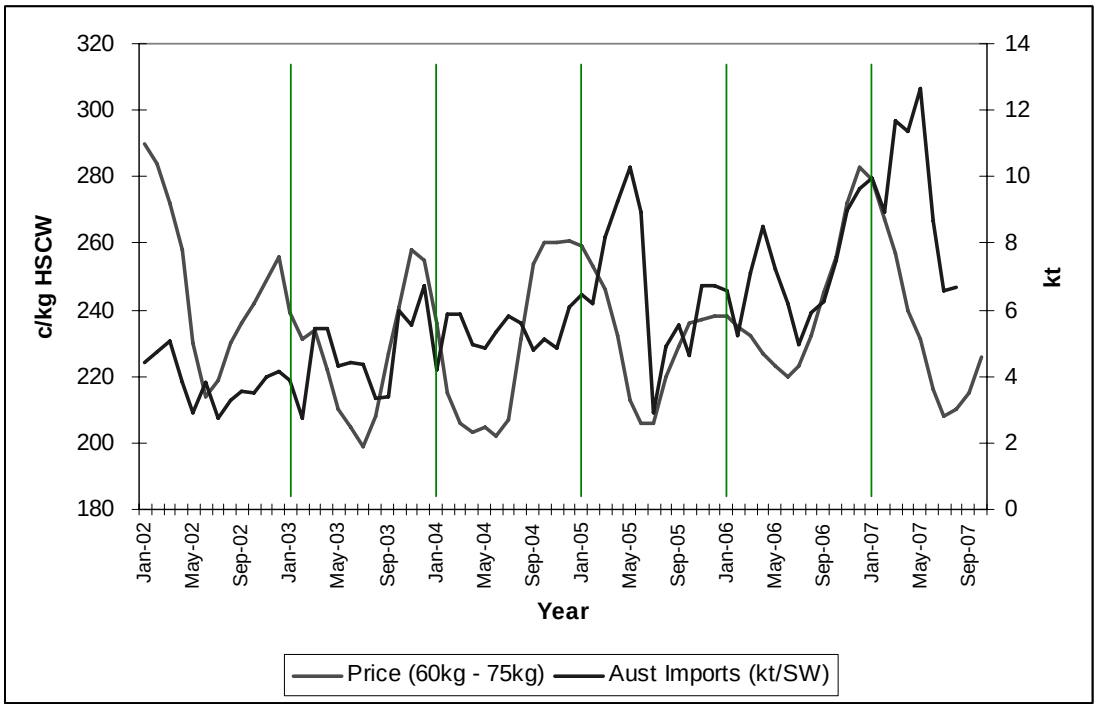
From Table 5 it can be seen that the moving annual total volume of pigmeat imported into Australia has increased in 2007 by 45.6 percent from last year (an increase from 74,295t to 108,141t) which is comprised of strong growth by all 3 major importing countries. Industry has argued that such high levels of imports have acted to indirectly depress pork prices in the domestic market and thereby squeeze producer margins over several years. The correlation between domestic prices and imports can be seen in Figure 6.

Table 5: Australian Pigmeat Imports by Origin[16]

	TOTAL		CANADA		DENMARK		USA	
Month	Volume Tonnes SW	Value $AUD (million)	Volume Tonnes SW	Value $AUD (million)	Volume Tonnes SW	Value $AUD (million)	Volume Tonnes SW	Value $AUD (million)
MAT Jul-07	108,141	436.2	41,418	153.4	37,207	173.2	28,478	104.5
MAT Jul-06	74,295	274.1	29,766	103.4	25,087	103.2	18,405	63.3
% Change	45.6	59.1	39.1	48.4	48.3	67.8	54.7	65
Jul-07	6,543	25.2	2,364	8.2	1,517	7.5	2,606	9.2
Jul-06	4,976	18.1	1,831	6.6	1,051	4.5	1,995	6.7
% Change	32	39.6	29.1	24.2	44.3	66.7	30.6	37.3

SW = Shipped Weight MAT = Moving Annual Total

Figure 6: Domestic Monthly Farm Gate Baconner Price vs Import Volume[17]



While the domestic farm gate baconner price is subject to significant seasonal variation, it is also heavily influenced by imports. For instance, additional monthly imports of between three and six kilotonnes appear to be induced when the price approaches 230 cents per kilogram, typically around the

[16] APL Newsletter 'Pork it up' October 2007.

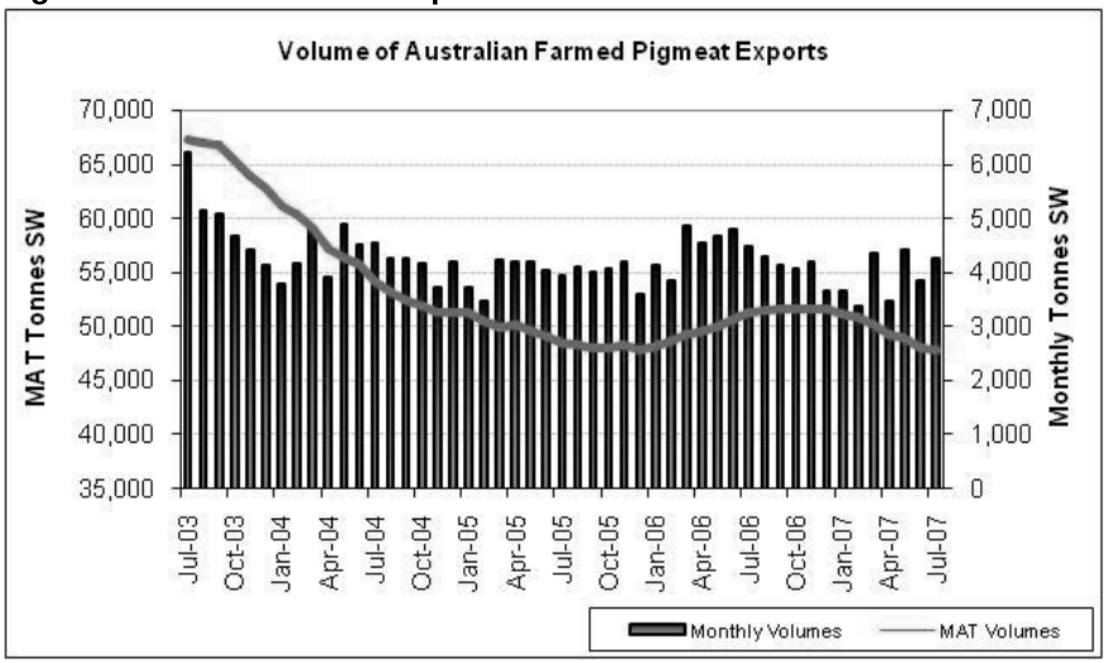
[17] APL 2007 price statistics.

traditional December seasonal peak. The ability of domestic producers to pass on higher input costs is therefore limited by the price ceiling set by imports, resulting in considerable adjustment pressures for domestic producers.

The seasonal variation in import quantities has also become more pronounced over the past 3 years. The record level of imports that occurred in early 2007 and the simultaneous record fall in domestic price, is of particular significance. Although the price and import trends exhibit seasonal fluctuations the magnitude of that variation has been at historically high levels in recent years placing unprecedented adjustment pressure on the domestic industry.

While the Australian pork industry has established niche export markets, often based on its perceived superior animal health status, Australian exports remain heavily dependant on the world parity price and the prevailing exchange rate. Australian exports have also been adversely affected by European Union subsidies to pork producers, which are predominantly provided as market price support, meaning that EU producers, such as the Danes, are less responsive to price signals and tend to over-produce during times of low world prices. Given the EU's export capacity, this reinforces low world prices and tends to increase the quantity of EU pork directed at relatively open markets, such as Australia, as well as Japan and Singapore – Australia's major pork export markets. In recent years, the moving annual total (MAT) of export volumes from Australia have been trending steadily downwards (see Figure 7).

Figure 7: Australian Pork Exports[18]



[18] APL (July 2007 Pork Report).

3.2 Production Efficiencies

Economies of scale and advanced animal genetics, and their combined effect on feed conversion, are major sources of production efficiency for pork producers. The major pork exporting nations achieve substantial economies of scale in both production and processing due to their high industry throughputs and they also have access to porcine genetics that are unavailable to Australian producers due to Australian quarantine restrictions. The pork that is imported into Australia also tends to compete against domestic baconer pigs – the most efficient size of pig to produce in terms of feed conversion and infrastructure utilisation.

Producers in some of the major pork exporting nations also have the advantage of not being subject to animal welfare and environmental standards as stringent as those applied in Australia. This is particularly the case for producers located in the United States and Canada.

Australia's quarantine standards preclude the sale of imported fresh pork to domestic consumers. While Australia's pork producers find it difficult to compete against imports, it is possible for the Australian pork industry to specialise in the production of pigs for the supply of fresh pork to domestic consumers. This proposition is supported by the fact that fresh pork sales as a proportion of total domestic pork sales has increased from 38 percent in 2002-03 to 47 percent in 2005-06.

3.3 Rising Feedgrain Prices

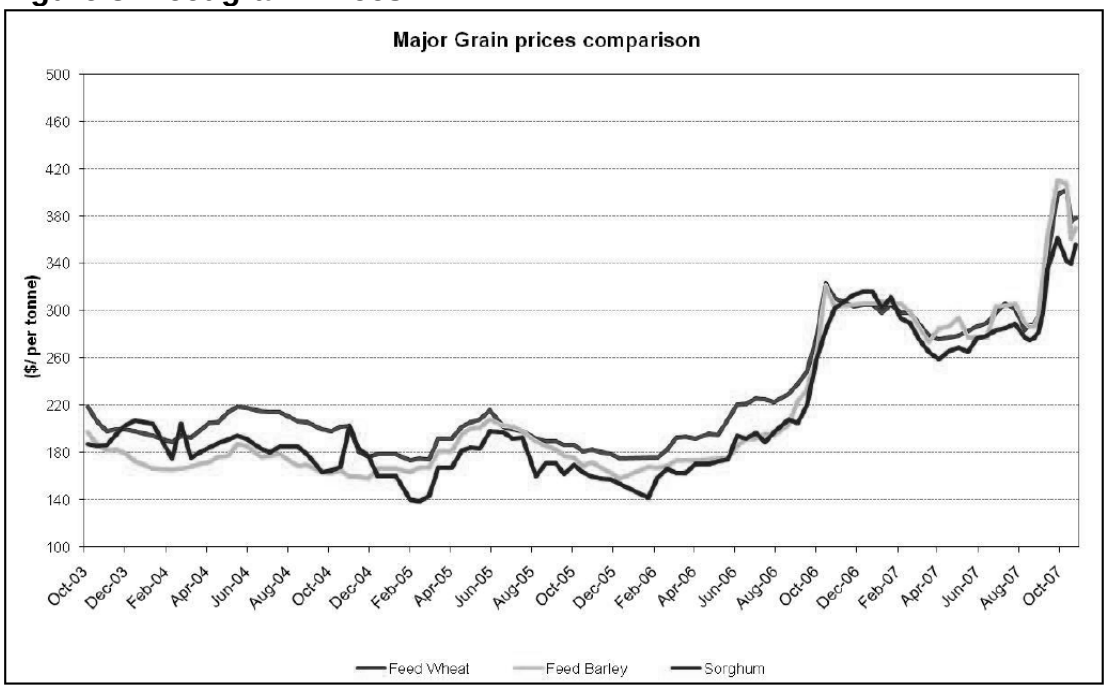
The pigmeat industry is heavily dependant on the availability of feedgrains. Australian grain prices are usually determined by the export parity price for Australian wheat, with other feed grain prices broadly benchmarked off wheat and price relativities determined by quality attributes, such as energy and protein levels, although some feed grain prices are determined by their respective export prices.

International feed grain prices rose during 2002, in part due to extensive drought conditions in Australia, which led to reduced Australian wheat supply. In addition, the level of total domestic demand for grain within Australia increased, relative to available supplies, driving domestic prices well above export parity. Grain prices rose to historical highs but declined in late 2002.

The price of feed grains rose again in late 2005 and have remained high since, increasing further to record levels in late 2007.

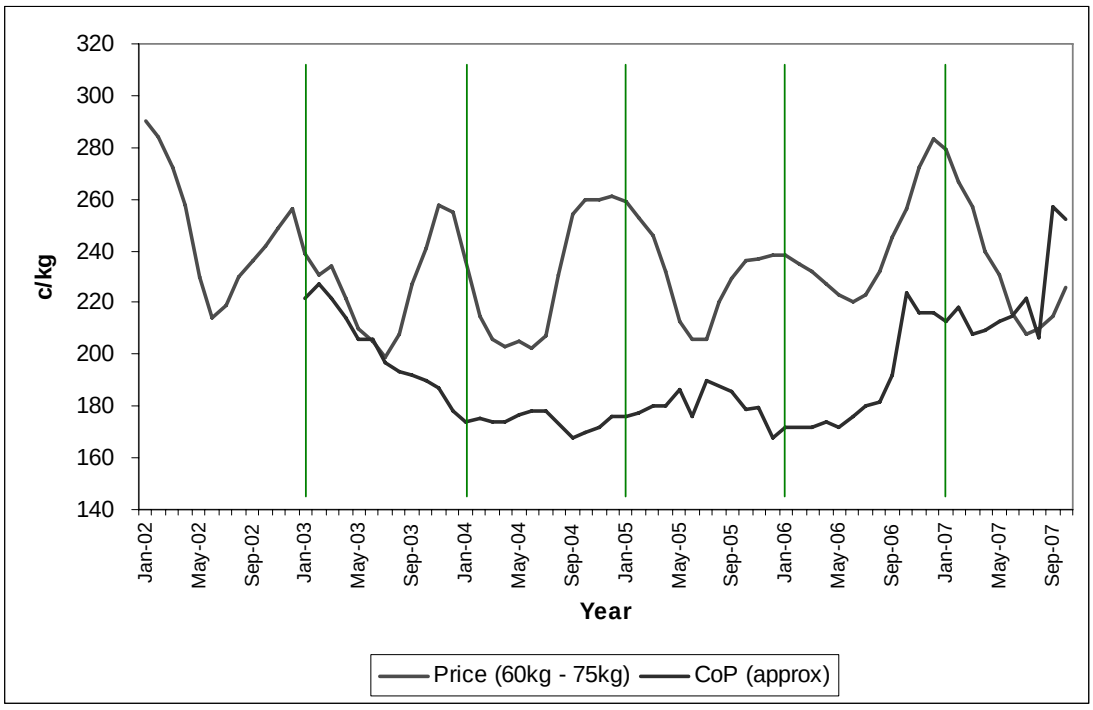
The current spike in prices has seen the feed grain component of the cost of production of baconer pigs rise to represent around 70 percent of the cost of production.

Figure 8: Feedgrain Prices[19]



With pigmeat prices being held low due to the increasing levels of imports, producers have been unable to pass the high feed grain prices on to consumers. Consequently, with the costs of production now exceeding price (see Figure 9), many producers are facing negative returns.

Figure 9: Cost of Production vs Domestic Farmgate Baconner Price[20]



[19] Eyes and Ears – Market News for the Australian Pork Industry 25th Oct 2007.

[20] APL statistics 2007

Increasing production costs since January 2006 have a strong correlation with feed grain prices which have been substantially influenced by the worsening drought.

3.4 Summary – Imports, Prices & Production Costs

- Key long term trends impacting on the Australian pigmeat industry include increasing domestic consumption, particularly of fresh pork, and increasing imports.
- Seasonal variation in domestic prices and imports appear to be increasing, and high levels of imports are followed by periods of low domestic prices.
- Australian pork producers are less competitive than overseas exporters due to subsidies, scale limitations and their inability to access world class animal genetics.
- The NSW industry has recently been heavily impacted upon by high grain prices caused by the extended drought in NSW.
- In 2007 low domestic prices have coincided with a sharp increase in imports and high production costs to place unprecedented adjustment pressures on the domestic industry.

4. Potential Areas for Australian Government Assistance

4.1 Current Assistance

Commonwealth Government

The Pork Co-operative Research Centre (CRC) was established in 1990 by the Commonwealth Government to support research and development into the Australian pig industry. The Pork CRC is administered by the Department of Education, Science and Training and is aimed at enhancing the Australian pork industry in terms of international competitiveness, technological innovation and cost reduction.

The CRC is currently funding 26 projects, with previous programs including improvements in feed conversion efficiency, sow management and increased efforts in expanding the range and functionality of pork products. Major participants in the Pork CRC include Australian Pork Farms Group, Australian Pork Limited, the South Australian Research and Development Institute (SARDI), the New Zealand Pork Industry Board and Murdoch University. NSW DPI is also a supporting participant.

NSW Government

Research, Development and Extension

NSW Department of Primary Industries' (NSW DPI) pig research facilities and staff are located at the Elizabeth MacArthur Agricultural Institute (EMAI) at Menangle NSW. This facility contains a Regional Veterinary Laboratory and associated post-mortem room, histological, bacteriology and microbiology

capabilities. There are also a number of specialist veterinary research laboratories including virology and microbiology and immunology, which are involved in the development of new disease diagnostic techniques, management of animal disease outbreaks and animal disease research.

NSW DPI is investigating the use of probiotics and the effect on the immune response of young pigs, the enteric disease proliferative enteropathy (ileitis) and antibiotic free control and eradication of the disease and working on projects to better understand respiratory diseases (Enzooitic pneumonia and pleuopneumonia) and the associated pathogens.

Animal research facilities at EMAI include a quarantine facility with high, medium and low security units designed to isolate specific disease organisms; and a low-quarantine area which includes four large animal houses - one of which is used exclusively for pig research and is referred to as the controlled-environment pig research facility.

NSW DPI invests considerable resources in providing research and extension support for the pig industry.

Current research projects include:

- new ultrasound and light-striping technologies to predict belly yield;
- pneumonia investigations involving A. pleuropneumoniae and M. hyopneumoniae;
- control of proliferative enteropathy (PE) caused by L. intracellularis, investigations;
- porcine myocarditis investigations;
- role of probiotics in modifying immune responses and immune tolerance of the young pig; and
- use of molecular techniques to actively understand the genome of Mycoplasma organisms.

Current Extension services are focussed on*:*

- improving sow productivity on-farm
- promoting sustainable re-use of effluent and manure nutrients on-farm
- providing engineering advice on pig housing construction to meet animal welfare, environment and Local Government approval processes
- improving traceability of pig movements through the state wide adoption of the National Livestock Identification System.
- promotion of best practice health and welfare strategies in the NSW pork industry

NSW Pork Industry Taskforce

The NSW Government is also a part of the Pork Industry Taskforce (PITF), along with representatives from the pig industry, growers, processors, industry agribusiness, NSW Farmers, APL and the NSW Department of State and Regional Development.

To advance the interests of the NSW pork industry, the Taskforce discusses value adding initiatives for the industry while providing timely feedback to the NSW government. Issues include:

- strategic planning;
- environmental management;
- feed grain market intelligence;
- cost effective processing facilities;
- improved management and technical competencies of producers;
- animal welfare;
- product specifications;
- new investments; and
- aligning NSW DPI pork extension and research programs to industry development needs.

4.2 Future Assistance

There are a number of measures that the Australian Government could consider to assist in improving the industry's efficiency in addition to the current measures listed above. Measures considered likely to contribute to the improvement of industry competitiveness are summarised below.

Further Research

Lack of access to advanced porcine genetics is a major impediment to productivity improvement within the Australian pork industry. While a review of present semen or embryo importation restrictions may be warranted, it could be the case that research aimed at developing new technologies or protocols is the most appropriate avenue for improving the pork industry's access to imported genetics without jeopardising Australia's animal health status.

Australian pork producers have moved toward producing lighter weight carcasses for the fresh pork market to take advantage of increasing domestic demand for fresh pork and avoid import competition in the processed meat market. Further research aimed at optimising carcass composition for the domestic fresh pork market is required, particularly carcass composition feedback systems that enable more direct market signals to be given to Australian producers.

There is also a developing market for antibiotic-free pork in countries such as Japan. Australian pork producers presently rely on antibiotics to control diseases where no vaccine exists, or where current vaccines are unable to provide significant protection from disease. An expansion of existing research into vaccine antigens and the use of probiotics and management strategies to control and reduce transmission of diseases that currently require antibiotics could therefore have significant benefits for Australian pork producers. The development of an organic pork production system could also allow producers meet these types of market demands.

Producer Education

Producer education and extension schemes have an important role in ensuring that the domestic pork industry is able to make the productivity improvements necessary to improve its international competitiveness.

While the CRC is undertaking much valuable research, it is important that appropriate resources are devoted to extending research results to producers to ensure optimal uptake of new technologies. Given the limited resources presently devoted to extending the CRC's research results the case for increasing industry extension could be considered.

Trade Negotiations

Presently, the supply of pork to international markets is not only determined by relative costs of production and obvious barriers to entry to specific markets, such as tariffs and quotas, but also significant and less transparent production and export subsidies, particularly those received by European Union producers. These domestic support measures provide pigmeat producers and exporters in those countries with a significant (and unfair) advantage over Australian producers.

The Commonwealth is responsible for multilateral and bilateral trade negotiations and every effort needs to be made to establish a 'level playing field' with international competitors. Together with robust, scientifically based, quarantine protocols, this will ensure that the Australian industry has every opportunity to compete on world markets and does not face unfair import competition.

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