

PRODUCTIVITY COMMISSION SAFEGUARDS INQUIRY INTO THE IMPORT OF PIGMEAT

Response to Issues and Questions Paper

November 2007

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EXECUTIVE SUMMARY

The NSW Farmers' Association (the 'Association') welcomes the opportunity to present a submission to the Productivity Commission Safeguards Inquiry into Import of Pigmeat.

This Inquiry was the response by the Federal Government to a request by Australian Pork Limited ('APL') for the immediate imposition of provisional safeguard protection against imports. That request was not made to secure continuing protection against imports (that is not permitted under the World Trade Organisation ('WTO'), nor sought by the industry), but to secure temporary protection while orderly restructuring of the industry can be undertaken (that circumstance is provided for in WTO rules.)

The commercial problems of the industry are the result of a steady and significant increase in pigmeat imports. This increase followed the removal of trade protection after commitments to liberalise the industry in the Uruguay Round and loosening of quarantine restrictions, as well as the alignment of quarantine management with new WTO disciplines developed during the Uruguay Round. The rate and extent of the increase in imports was unanticipated.

The analyses in this and previous submissions clearly show that there is direct correlation between rising imports and the fall in domestic price. Imports *alone* are causing serious injury to the Australian pork industry as a consequence of Australia complying with WTO obligations and that this, in turn, is adversely impacting on the competitiveness of the industry.

This report outlines the sheer volume and rate at which pigmeat is being imported to Australia. This has caused significant disruption among pig producers and has resulted in severe hardship. Significant numbers of producers have left the industry or reduced herd size, most are losing enormous amounts of money each week and infrastructure is being utilised. The flow on affect to abattoirs and processors will be increased as pig numbers are reduced and this impact will also be felt by regional communities.

Immediate action is required as accepted under the WTO rules, to prevent avoidable financial ruin across the industry. The Association therefore requests the Commission to make an immediate request to the Government to restrict/impede imports. This will create an opportunity for the industry to stave off financial ruin while the inquiry can be undertaken and a restructuring program can be properly designed and implemented in an orderly way.

If immediate action is not provided it is expected and the rate of imports continues at existing levels, or increases, as is likely, the consequences for the industry will be severe and irreparable.

Clearly, a case exists for provisional safeguards and the Association strongly recommends the Productivity Commission secure immediate relief through *temporary protection*, while orderly restructuring can be undertaken (as provided for in WTO rules).

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1. INTRODUCTION

The NSW Farmers' Association (the 'Association') welcomes the opportunity to make a submission to this important Inquiry.

The Association represents the interests of intensive and extensive producers ranging from pig producers through to broad acre livestock and cropping industries throughout the State. The Association also focuses on issues affecting agriculture and rural communities including the environment, animal and plant health, quarantine and international competitiveness.

Specific to pork producers in NSW, the Association provides research, information, policy advice and lobbying power to its pork members. We work in close conjunction with Australian Pork Limited ('APL'), grain companies, other state farming organisations and the NSW Department of Primary Industries (DPI). The Association also works with our processors in the region so as to make aware to them of their relationship to our producers in the total supply chain.

2. BACKGROUND

Recent changes in the Australian pig industry have seen many smaller producers leave the industry and existing producers increase their size of operations in an attempt to remain viable. Over the last three years, the number of establishments reporting pigs has fallen 15% to 2,426. In the same period, the total number of pigs have fallen 5% to 2.755 million. This figure includes boars, sows, gilts intended for breeding and pigs for slaughter. The number of employees has also fallen 17% to 10,750 full-time jobs with 33,000 jobs indirectly. The Australian pork industry is currently valued at approximately \$906 million (ABS Yearbook 2005).

NSW is by far the largest producer and exporter of pork and pork products. For the year ended 30 June 2005 there were 592 establishments in NSW running pigs with the principle growing areas being located close to grain producing centers. This figure is likely to have reduced to approximately 530 establishments for the year ending 2007. The number of pigs in total at August 2007 was 666,000 with 74,000 of these being sows (figure 7). Despite the significant loss of producers and pigs from the industry, NSW still provides 28% of the nations herd (figure 8) and contributes 34% of the total exports from Australia (figure 9). It has a gross value of \$257 million and employs 3,300 people in full time jobs with 8,000 more indirectly.

The Australian pork industry exports \$155.7 million annually (3.5% decrease on August 2006), mainly as quality fresh meat to Asia. Hard hit by significant importation of subsidised pork meat from Europe in the late 1990's, the pork industry has restructured dramatically and has re-emerged as a vibrant and progressive industry producing quality meat with a new focus on the fresh meat and export markets.

Exports however account for only 10% of the total pig market. The fresh market accounts for 36%. Therefore the industry still heavily relies on the processed market to make up the remaining 54%. As outlined in this report, imports have increased significantly over the last 5 years and in particular the last 2 years. The affect that imports are having on the processed market is substantial as they have taken over 70%

of the processing market and a large part of the domestic market is suffering as a result. Due to the integrated nature of the industry the fresh and export markets are also affected.

The pork industry is once again suffering significant cash flow problems as a direct result of the sustained and increasing importation of subsidised pork products. Exacerbating this position is the high cost of production, unconvertible/ unsaleable assets and the fact that pork producers have not been allocated similar drought assistance as the extensive industries from either State or Federal Governments.

Pork producers are acutely aware that the global market in which it operates affects not only the prices received for exports but also the prices received domestically as a result of imports. Pork producers are also aware that while Australian pork exports make a significant contribution to the national trade account (around \$30 billion per annum), the industry represents a small player in most international pork markets.

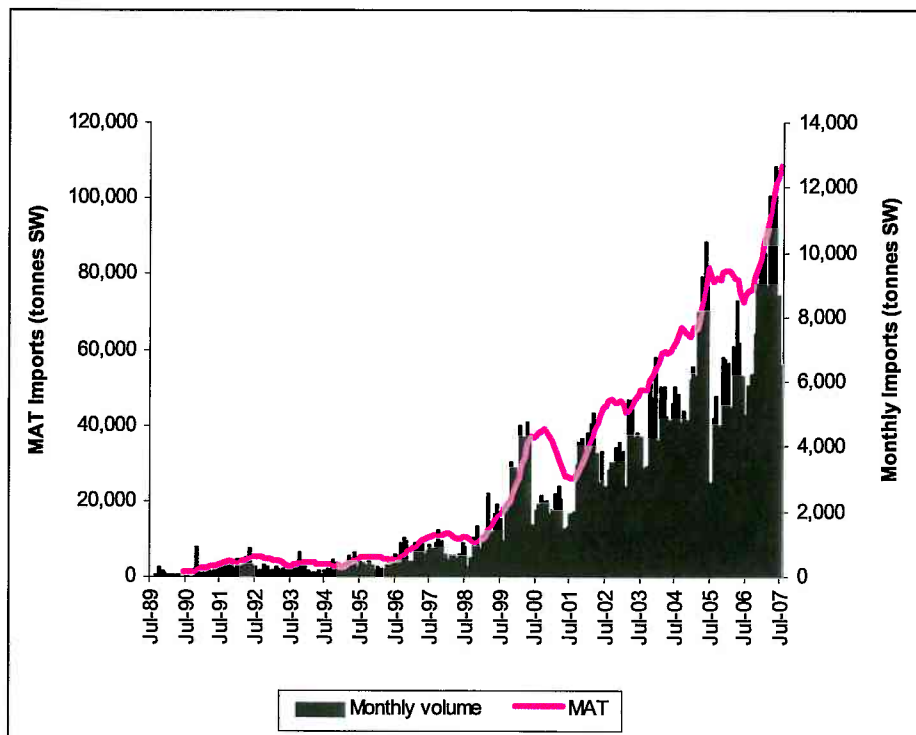
It is therefore essential that the costs and burdens imposed on the industry without adequate consideration of competitive impacts are properly assessed and that appropriate recommendations are made for the long term sustainability of the pig industry.

3. IMPORTS

3.1 Increase in imports & import volume trends

In absolute terms, the volume of imports coming into Australia has increased substantially over the past 5 years. In 2002 the moving annual total imports was approximately 50,000 tonnes. In July 2007 (5 years later) that figure has doubled to approximately 100,000 tonnes (figure 1). This rise has been the result of a commitment in the Uruguay Round to bind pig meat imports at a zero tariff and to relax quarantine import restrictions, consistent with the obligations in the Agreement on Sanitary and Phytosanitary Measures, which was also negotiated during the Uruguay Round. The Safeguards inquiry of 1998 found that imports have increased at sufficient a rate to warrant temporary tariff protection, however this protection has not occurred.

Figure 1. Australian pork imports, monthly and moving annual total (MAT), 1989 – 2007

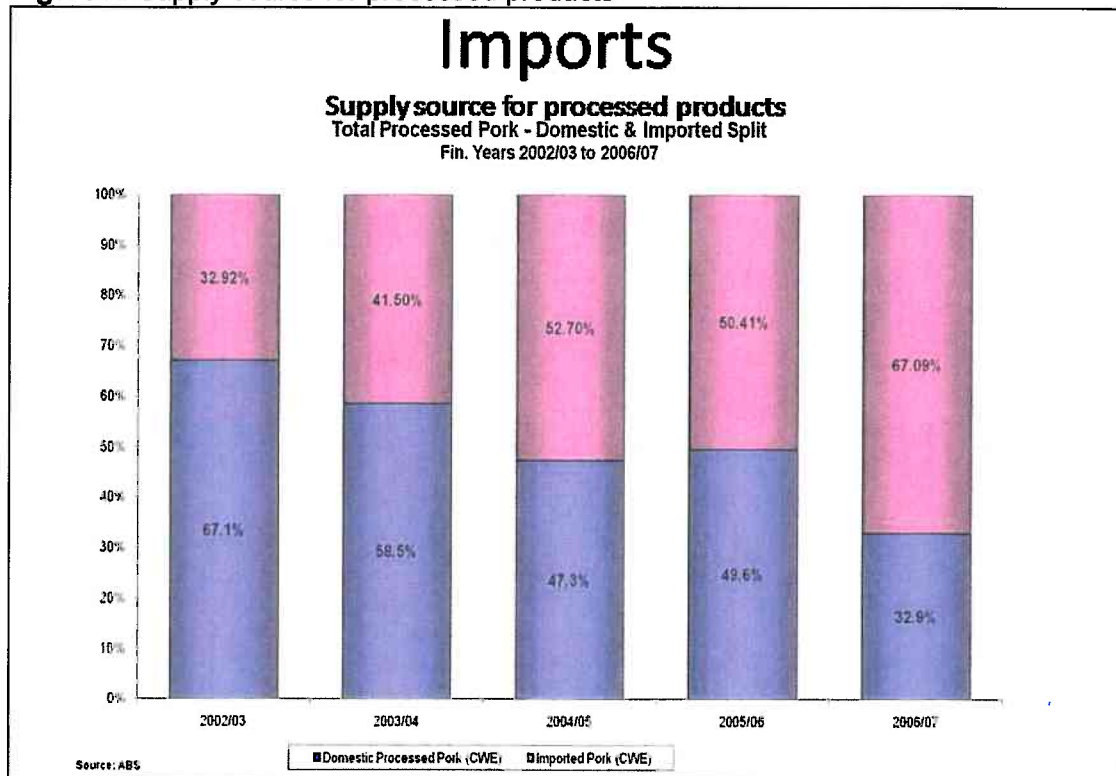


Source: Australian Bureau of Statistics (ABS)

In relative terms, imported pork has increased its share in the processed market significantly in the past 5 years. In 2002/2003 domestic pork held 67.1% of the processed market however now in 2007 it holds only 32.9%. This means that the share of the processed market that imported pork has increased 34.17% in just 5 years and more specifically in the last year alone this has increased 16.68% (figure 2).

Since the relaxing of quarantine measures and the opening of the market, the Australian pork industry has responded to the increase in imports through significant restructuring. Piggeries have become significantly more productive and efficient. They have some of the best animal welfare, health and quarantine standards in the world. Despite this restructuring the industry is suffering. It is difficult to imagine the industry adapting to these level of imports in such a short period of time, especially when imports continue to rise and producers currently face an unusually high cost of production.

Figure 2. Supply source for processed products



Source: ABS

While import volumes have increased at a dramatic and sharp rate over the past 5 years, domestic slaughter numbers, tonnes of pig meat produced and exports have reduced (figure 3).

Figure 3. Overview trends for Domestic, Export and Import trade

Domestic			Exports		Imports	
Month	Slaughter ('000)	Pig meat (Tonnes)	Volume Tonnes SW	Value \$AUD (Million)	Volume Tonnes SW	Value \$AUD (Million)
MAT Aug - 07	5,328.4	382,683	47,686	\$155.7	108,926	439.5
MAT Aug - 06	5,372.2	388,014	51,504	\$161.4	75,309	278.5
% Change	-0.8%	-1.4%	-7.4%	-3.5%	44.6%	57.8%
Aug - 07	458.7	33,492	4,240	\$14.0	6,696	26.0
Aug - 06	455.4	33,263	4,302	\$13.7	5,911	22.7
% Change	0.7%	0.7%	-1.4%	-2.1%	13.3%	14.6%

Source: APL Import, Export & Domestic Production Report , August 2007. MAT- Moving Annual Total

Imports have also increased relative to production. To measure import penetration relative to production, boneless leg imports need to be converted to a carcass weight equivalent and should be covered by other parties' submissions.

3.2 Future imports

APL analysis and scenario modelling has found that over the next few years, if a safeguard measure is not implemented, imports can be expected to increase to a point where they will consume 75-85% of the processed market. If this occurs, domestic pork will only hold 15-35% of the processed market. Producers will then be forced out of the industry or will change markets. However, the fresh and export markets are much smaller than the processed pig meat market and there is a risk of oversupply in this market which would again reduce prices.

3.3 Nature of imports

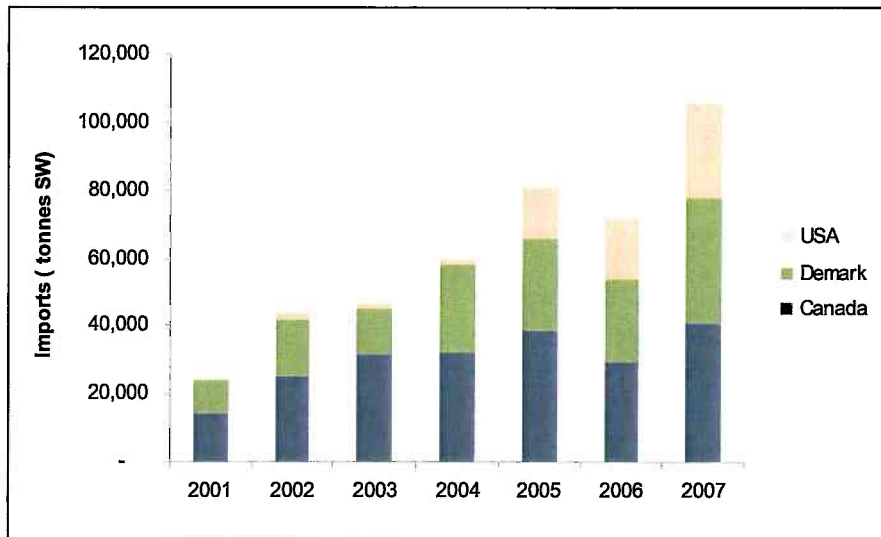
Details on the nature of imports and whether there has been a change in the nature of imports (for example different cuts of pig meat or a different quality mix) will be provided in other submissions such as those by processors.

3.4 Unforeseen developments resulting in an increase in imports

The commitment which was made in the Uruguay Round to bind pig meat imports at a zero tariff and to relax quarantine import restrictions may have seemed like a reasonable decision. However, the industry was not consulted on this and there is absolutely no evidence to suggest that the level of imports which are now coming into Australia could have been foreseen at that time. When restrictions on imports were removed and quarantine relaxed, countries which previously could not import pig meat to Australia suddenly were able (subject to quarantine). While an increase in imports would have been expected after this event, the sheer volumes and rate at which imports have increased (particularly in the last 5 years) could not have been foreseen.

The increase in the volumes of pig meat being imported to Australia was exacerbated when the USA entered the market as well. At the time it was expected that the USA may take over some of Canada's share in the processed market. However, this was not the case. Volumes of pig meat from the USA were being imported in addition to the volumes coming in from Canada and Denmark (figure 4). This could not have been foreseen and has had a devastating affect on the industry.

Figure 4. Australian pork imports, selected countries, 2001 – 2007



Source: ABS

Summary of Imports

- **Moving Annual Total Import volumes have risen to 108,926 tonnes (this is a 44.6% increase in the last year).**
- **The share that imported pork has in the processed market has risen to 67.09% (this is a 34.17% increase in 5 years or 16.68% in the last year).**
- **The volume and rate at which these increases have occurred are significant and could not have been foreseen.**

4. DEFINING THE INDUSTRY

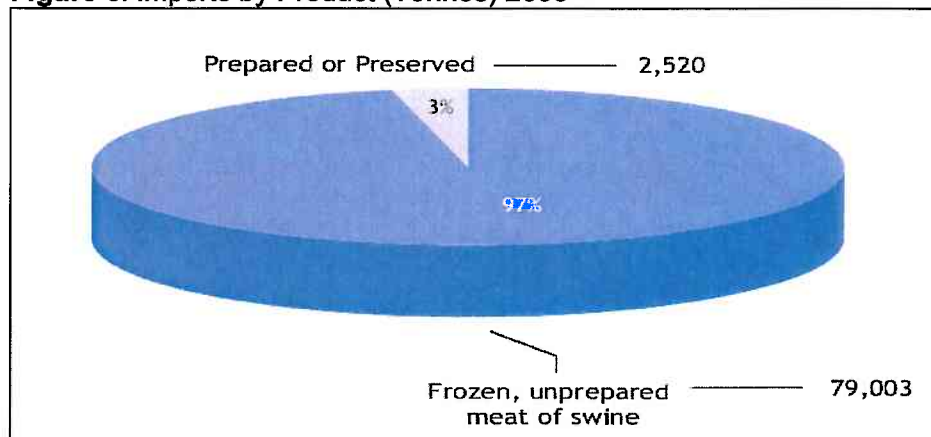
4.1 Products 'like' or 'directly competitive' with imports of frozen pig meat

Approximately 40% of the domestic carcass is used to supply the fresh pork market and the remaining 60% goes directly into the processed market. Because imports can only supply the processed market, 60% of the domestic carcass is in direct competition with imports.

The pig market is made up of three segments; the export sector (which only accounts for 10% of the total pig market), fresh market (which accounts for 36%) and processed market (which accounts for 54%). Pigs can be directed into any of these markets, the only thing differentiating them is the age of the pig and the carcass weight. Carcasses of 50-70kg HSCW go into the fresh sector, 70-90kg HSCW to the processed sector and 90-110kg HSCW to the export sector. The price in each of these markets is strongly linked, for example a significant portion of domestic pig meat marketed for the fresh sector actually ends up in the processed sector. This portion is 'like' and 'directly competitive' with products being imported. Due to the constant supply and subsidised nature of imports going into the processed market, the price remains low and therefore sets the price domestic producers get for these products.

Domestic products 'like' or 'directly competitive' with imported pig meat include frozen, unprepared pig meat and prepared or preserved pig meat. Of the total imports, 97% goes into the frozen, unprepared part of the processed market and 3% into the prepared or preserved part of the processed market (figure 5).

Figure 5. Imports by Product (Tonnes) 2005



Source: APL- Australian Pig Annual 2005

In particular the domestic cuts which are 'like' or 'directly competitive' with imports of frozen pig meat include boneless middles (rind on and/or rind off) which compete with 'like' products from Denmark, boneless leg primals (3 piece leg) which compete with the 'like' products from Canada and Rollout C105 which compete with 'like' products from the USA.

4.2 Producers of 'like' or 'directly competitive' goods

There was a US lamb case where "like for like" products referred only to products out of the boning room and not 'off farm'.

The difference in this case is that the pork industry is of a unique nature where by the producers, boning rooms and processors are highly integrated. In 1998 it was found that 90% of pigs slaughtered were done so through an integrated business or by contract service kill. Since this time there has been a shift towards vertically integrated businesses so this percentage will most likely have increased. A good example of this is QAF from Corowa, NSW.

Therefore, the majority of domestic pig meat for the processed market whether it be off farm, from the boning room or from the processor can be referred to as 'like' or 'directly competitive' with imports of frozen pig meat.

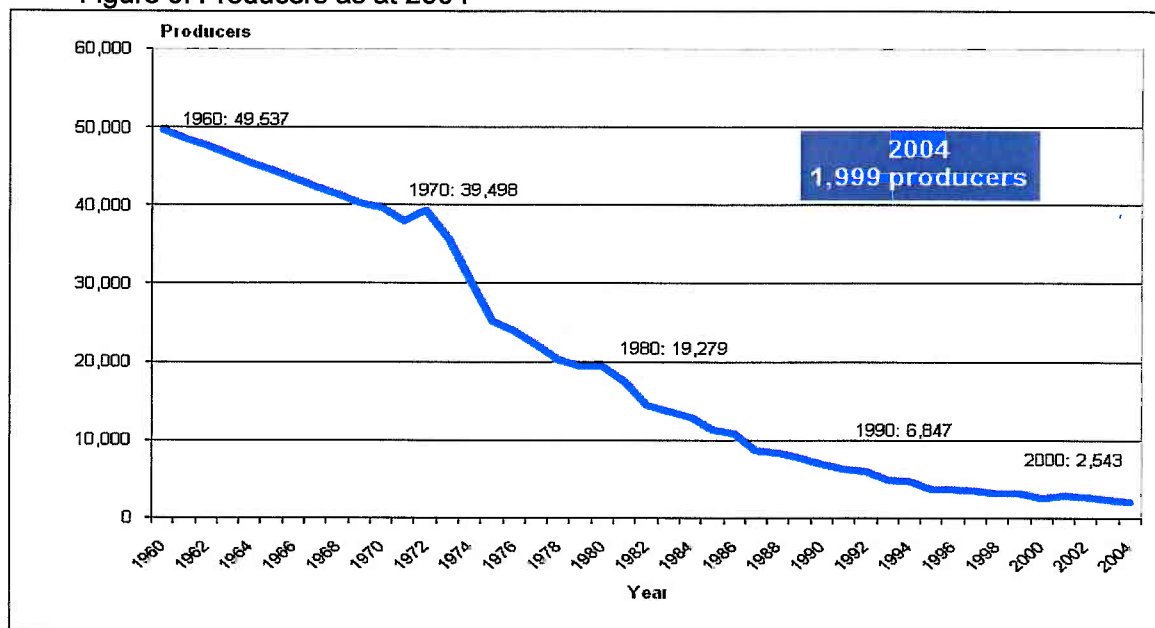
Defining the Industry Summary

- The nature of the pork industry is highly integrated.
- Producers sell a whole carcass and not just parts of a carcass. Therefore the price of part of a carcass is significantly affected by the other parts.
- There is direct correlation between the rise in imports and fall in domestic prices.
- Australia's major export destinations such as Singapore and New Zealand have maintained fairly steady export volumes despite an increase in price (due to changes in exchange rate). Therefore the exchange rate cannot be held responsible for injury in the industry.

5. INDUSTRY SITUATION

The Australian pork industry is currently valued at approximately \$906 million (ABS Yearbook 2005). In 1960 the number of pork producers in Australia was 49,537 (figure 6). This number has dropped continuously since then and in the last three years, the number of establishments reporting pigs has fallen 15% to 2,426. In the same period, the total number of pigs has fallen 5% to 2.755 million (figure 7). At the time this inquiry began there were 306,000 sows in Australia. Latest figures suggest this number has fallen to 260,000 sows. This is a 10% drop in sow numbers in a few months. The NSW pig producing region around Grenfell and Young has alone lost 5550 sows in this time. For every 100 pigs in the industry there is one employee employed directly and over 2 others employed indirectly. So with pig losses in the last three years employee numbers have fallen 17% to 10,750 full-time jobs and 33,000 jobs indirectly.

Figure 6. Producers as at 2004



Source: APL As at June, 2004

Figure 7. Total Breeding herd by state

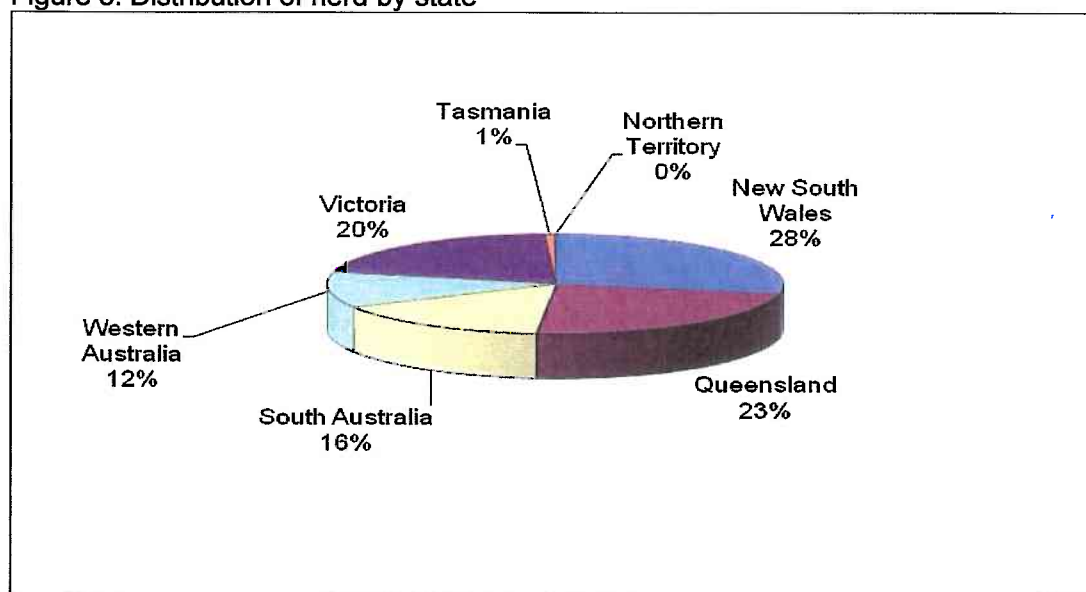
	NSW	VIC	QLD	SA	TAS	NT	ACT	AUST
Boars (000)	3	3	3	2	2			13
Breeding sows (000)	74	72	73	51	34	2		306
Gilts intended for breeding (000)	19	11	10	6	4			50
All other pigs (000)	571	548	631	356	265	14	2	2386

Total (000)	pigs	666	633	717	414	305	17	2	2755
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Source ABS - 05/06 (released 26/07/2007 – preliminary)

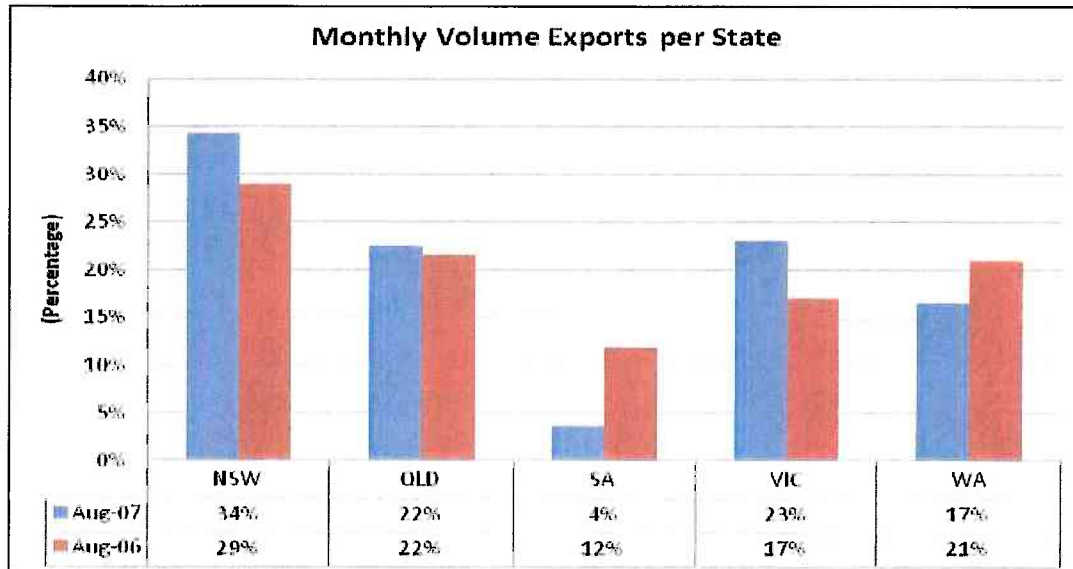
NSW is the largest producer and exporter of pork and pork products. For the year ended 30 June 2005 there were 623 establishments in NSW running pigs with the principle growing areas being located close to grain producing centres. This figure is likely to have reduced to approximately 530 establishments for the year ending 2007. The number of pigs in total at August 2007 was 666,000 with 74,000 of these being sows (figure 7). Despite the significant loss of producers and pigs from the industry, NSW still provides 28% of the nations herd (figure 8) and contributes 34% of the total exports from Australia (figure 9). It has a gross value of \$257 million and employs 3,300 people in full time jobs with 8,000 more indirectly.

Figure 8. Distribution of herd by state



Source: APL As at June, 2004

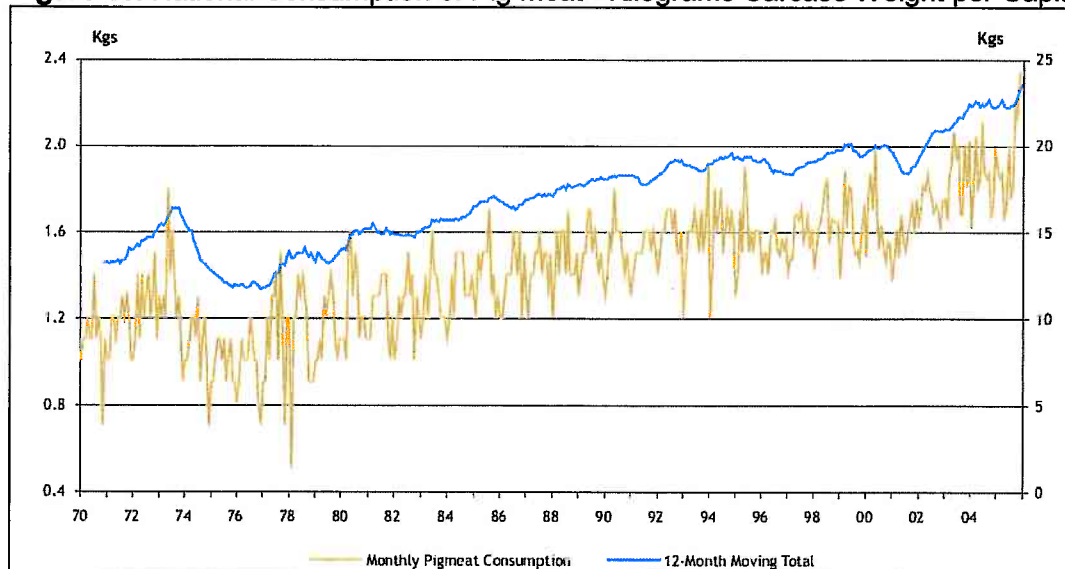
Figure 9. Monthly percentage of total exports by state



Source: APL Import, Export & Domestic Production Report , August 2007

Industry bodies such as the Australian Pork Limited and the Pork Cooperative Research Centre have worked extremely hard to get the pork industry where it is today. They are responsible for the positive image that the Australian pork industry has around the world; one that is proactive in research and development, animal health, welfare and marketing. Australian Pork Limited has been highly successful in raising consumer awareness around pork and this has resulted in a significant rise in consumption over the last 5 years. In 2002 consumption was at approximately 19kg carcass weight per capita per year and this has increased about 20% to 24kg per capita per year in 2007 (figure 10).

Figure 10. National Consumption of Pig meat - Kilograms Carcase Weight per Capita



Source: APL- Australian Pig Annual 2005

5.1 Supply / Demand & Price

In the past, supply has been the main driver of price. When adverse conditions occur, the cost of production rises for a period, producers leave the industry, supply drops, prices rise (and remain relatively high) and producers have an opportunity to recover. As producers re-enter the industry or existing producers expand, domestic production eventually increases.

However, this cycle is no longer the norm. Since quarantine measures on imports were relaxed, the market has opened. Import volumes have increased and there is a constant level of supply. This has depressed prices. It is clear that there is a strong link between imports and domestic price and that the depressed prices currently experienced in the domestic industry are a direct result of increased import volumes. This can be clearly seen through price history for the last 5 years. An example of this is given by one of our members below (figure 11).

Figure 11. Price history 2001-2007

Type	2001-2002	2005-2006	2006-2007	Current to Oct 2007
\$/kg (HSCW)	2.69	2.22	2.50	2.29

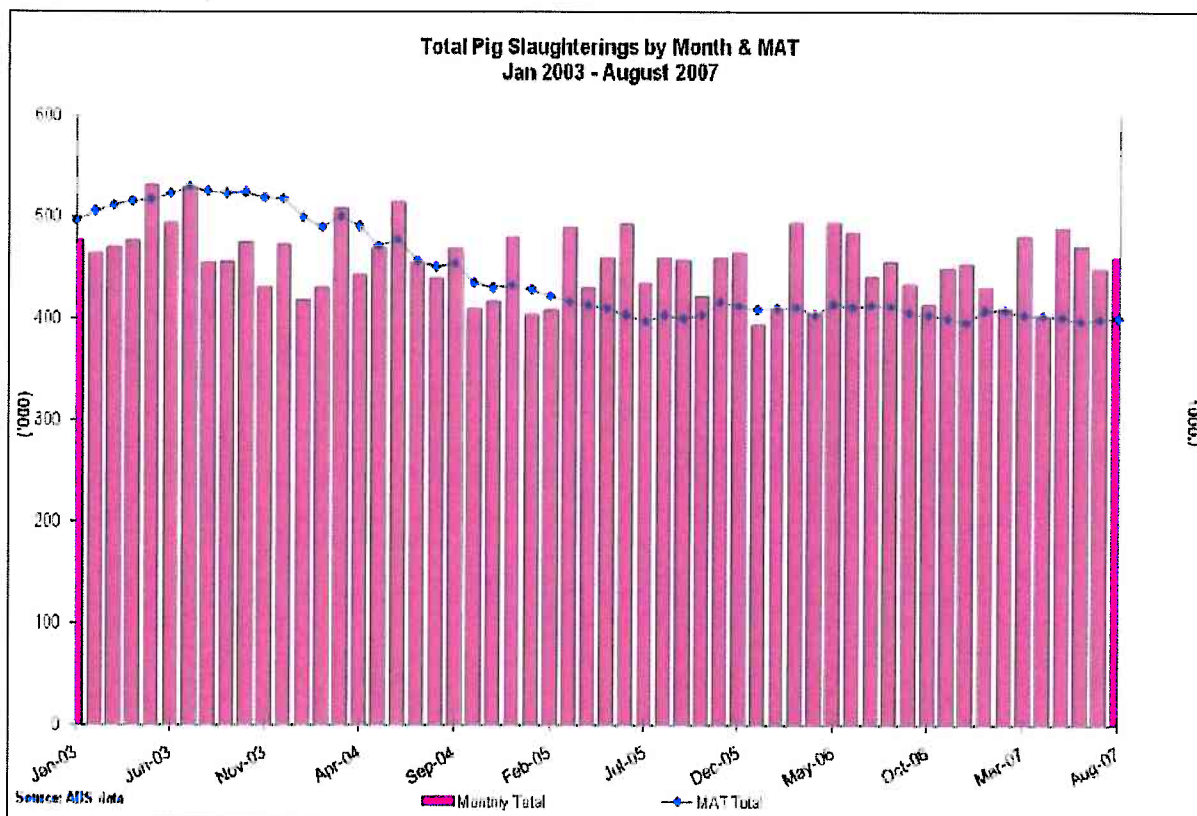
Source: NSW Farmers' Association member, 2007

Producers are now faced with high cost of production and low prices even at times when they would normally expect seasonal price rises. For example, in the lead up to Christmas the demand and price for leg ham rises. This is a key element to the yearly income for producers. However, the high level of imports over the past five years has depressed prices for boneless legs in the domestic market even in the lead up to Christmas. This has reduced profits to the point that producers are operating in an environment that is below the cost of production. Now producers are leaving the industry and reducing sow numbers at such a significant rate that there is reduced supply from the domestic market. Processors are demanding additional imports to maintain their supply. If this trend continues the industry is at risk of not being able to supply the fresh market. This has occurred in New Zealand and they are now looking into importing fresh pig meat which raises an array of quarantine risks.

5.2 Production

With so many producers leaving the industry and reduced sow numbers over the past five years there has been a significant fall in production. The total number of pigs being slaughtered has gone from over 500,000 per month in 2003 to approximately 400,000 per month in 2007 (figures 12). Similarly, the volume of pig meat being produced has fallen and has continued to fall over this past year (figure 13).

Figure 12. Total Pig Slaughtering by Month & MAT (Jan 2003 – August 2007)



Source: APL Import, Export & Domestic Production Report, August 2007

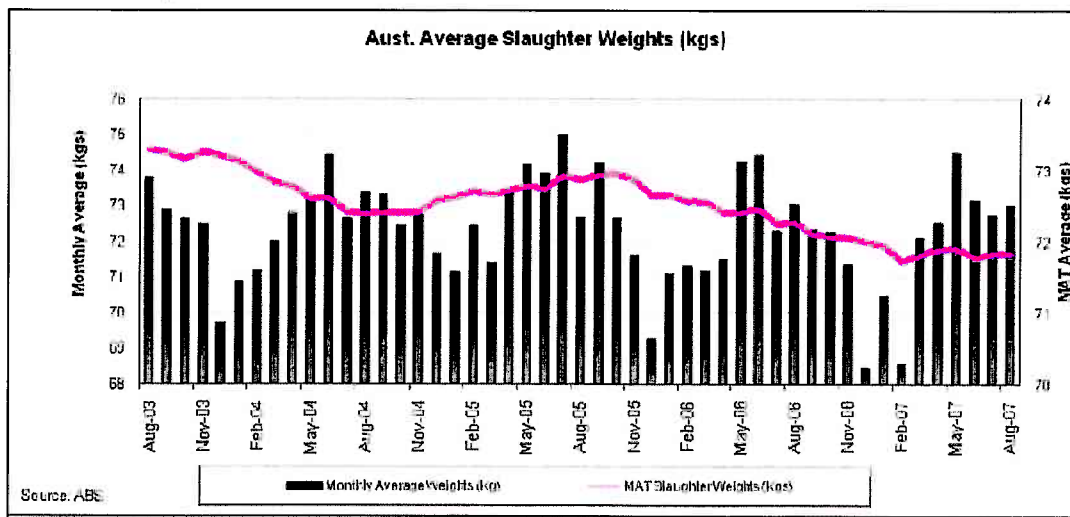
Figure 13. Australian slaughter and production trends

Pig Meat Production		
Month	Monthly (Tonnes)	MAT (Tonnes)
Aug - 07	33,492	382,683
Aug - 06	33,263	388,014
% Change	0.7%	-1.4%

Source: APL Import, Export & Domestic Production Report, August 2007.

MAT = Moving Annual Total HSCW = Hot Standard Carcase Weight

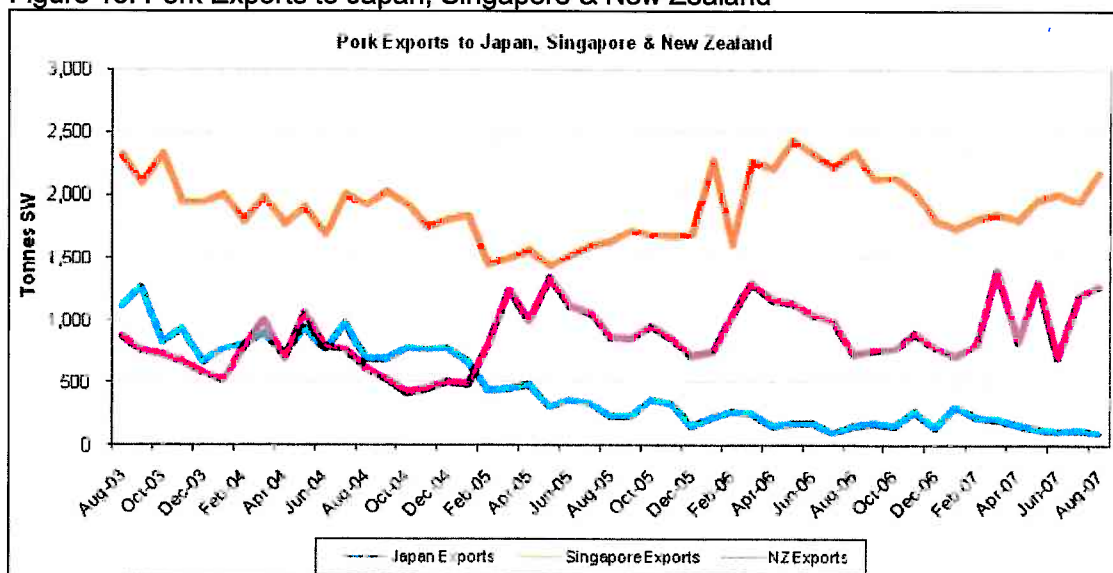
Figure 14. Average Australian slaughter weights



Source: APL Import, Export & Domestic Production Report , August 2007

Exports volumes to Japan have also reduced over the last five years (figure 14). Japan however contributes a relatively small amount to our total export volume. Australia's major export destinations such as Singapore and New Zealand have maintained fairly steady export volumes (figure 15). These export markets have held despite an increase in price (this is due to the exchange rate).

Figure 15. Pork Exports to Japan, Singapore & New Zealand



6. Are increased imports *causing* serious injury and has the industry suffered, or is it likely to suffer, *serious injury*?

The WTO defines serious injury as meaning “a significant overall impairment in the position of the domestic industry”. Impairment is measured by negative impacts on the levels of sales, production, profit, productivity, capacity utilization, earnings and employment in the domestic market. This section demonstrates that performance in all these categories has dropped in the Australian pig meat industry.

Imports are causing serious injury to the Australian pig meat industry. The WTO provides that if this occurs as a result of compliance with WTO obligations, members can take temporary action to restrain imports to protect industry while action is taken to make the industry competitive. The WTO provisions were designed to act as a safety valve in the event that commitments to liberalization created greater disruption to domestic producers than had been anticipated.

The imports need to be like products made by the domestic industry if it is to be demonstrated under WTO rules that they are the cause of serious injury. Imports from Canada, Denmark and now the USA have dominated key segments of the Australian market. Canadian legs and Danish middles clearly compete with ‘like’ and ‘directly competitive’ pig meat products made by Australian producers and processors. Imported products also compete indirectly with fresh domestic products like bone in ham. Producers sell a whole carcass and not just parts of a carcass. The depressed price they receive for pig meat that is directed into the processed market reduces the value of the pig meat that is directed into the fresh market and therefore the overall value of the carcass.

Imports need to have increased markedly for the damage caused to warrant temporary restraint of imports. Imports have increased steadily since the Productivity Commission found in 1998 that imports up to that point in time were causing serious damage. Since this time, Canadian imports have continued to increase, Denmark has entered the market (virtually equaling Canadian imports) and now the USA have entered the market as well. It was expected that the USA would take some of Canada’s share in the market and therefore would not have a marked affect on import volumes. However, it is now clear that volumes coming from the USA are significant and in addition to those from Canada and Denmark (figure 4). Import growth has been significant in the last three years.

Imports have been increasing at significant levels for well over 5 years and the injury that this has caused is evident. There is direct correlation between the rise in imports and fall in domestic prices (APL Submission 1 Productivity Commission Australian Pig Meat Industry Public Inquiry 19 October, 2004). In addition, UNE econometric analysis modelling based on the 1998 inquiry found a strong link between imports and damage to industry. The injury has been caused directly by imports which has interfered with domestic supply, depressed price and prevented normal seasonal price variation. For producers, this has been devastating and the injury in some cases is irreparable.

6.1 Profitability/Loss of Market Share

Information provided by efficient producers indicates a cost of production of approximately \$2.90/kg. Price is currently at about \$2.30/kg. This means that for every pig sold producers are losing on average 0.60c per kilo or approximately \$54 for a 90kg carcass. If conditions like these continue these producers will lose \$20,160 per week or \$1,048,320 next year (based on 1,747,200 kg pig meat produced per year). These

figures of course are even worse with less efficient producers. Surveys show that some producers are losing over \$60 per pig.

Losses like these can only be endured for a certain period and this is defined by individual producers. As already mentioned, many producers have already left the pork industry. In the last three years the number of establishments reporting pigs has fallen 15% to 2,426 and the total number of pigs 5% (boars, sows, gilts intended for breeding and pigs for slaughter). In the last few months it is estimated that we have lost 10% more sows, bringing figures to 260,000.

Scenario planning undertaken by APL has suggested that sow numbers must be maintained at least at 225,000 in Australia to maintain its current share in the domestic market. 45,000 sows are required to maintain its share in the export market. With approximately 260,000 sows at present, the industry can hold these markets, however if conditions do not improve by March next year it has been predicted that a further loss of sows will occur, bringing numbers down to around 200,000. This will bring the industry below the critical mass required to meet demand and maintain supply in the domestic market. This means the industry will lose some of its remaining share in the domestic market and could result in further imports coming in to take over its share and meet demand. Scenario planning found that if this eventuates, imports will account for 75-85% of the processed market.

Many producers have been forced out of the processed market due to depressed prices and have had to look at alternative markets such as the fresh market. The implications of this however is that a lighter carcass is required and the cost of production is higher. Efficiency and profit are therefore reduced. In addition some of the pig meat going into the fresh market actually ends up in the processed market in which the price is depressed. This reduces the value of the pig meat in the fresh market and therefore the overall value of the carcass. With an increased number of pork producers changing to supply the fresh market, the supply has gone up. This has also been responsible for prices staying low.

6.2 Production & Facilities

After the industry shake up in the late 1990's the industry has restructured and invested a huge amount of time and money in research and development. Particularly with improved infrastructure, animal welfare, health and business management. As a result the Australian pork industry has re-emerged as one of the most productive and efficient in the world, despite its small size.

Producers recognise the volatility of costs and take steps to manage this through their business management. Maintenance of infrastructure is constant and upgrades are essential for producers to improve herd health, feed conversion efficiency and therefore production. Many producers have made significant changes in this way over the last 10 years. Examples include the building of new sheds with improved flooring and ventilation. This greatly improves feed conversion efficiency and production. Separate site production is another strategy which has been widely adopted in the industry. This is where sows are kept on a separate site from the growers and significantly improves herd health through reduced disease. This again improves feed conversion efficiency and production.

The current climate in which producers are operating is so bad that producers can no longer provide the money necessary to make these improvements. The feeling of producers is that if they were given some breathing space (by the way of a temporary safeguard) for a few years they would be able to operate in a profitable environment again. They could then continue with infrastructure renovations, reduce their cost of production (by about 20c/kg) and improve their production efficiency. The Australian pork industry has so much potential for growth and if producers had the chance to make the necessary improvements, their businesses would grow substantially. This would place them in a very good position to compete in the world market.

APL and the Pork CRC are major players in research and development and marketing in the industry. The industry is confident that with the support of organisations like these it can grow substantially and has the potential to be the world leader in pig production. In terms of research, animal health, welfare and marketing the industry is already a world leader.

For many producers, if their businesses are not given some form of relief in the next three months, they will go out of production. The affect that this will have on the industry has been mentioned, but there are huge issues in terms of what producers can do and what they can do with their land and infrastructure. There is a huge amount of capital tied up in infrastructure. For many producers this infrastructure is not even 10 years old and has no other use away from pig production. In some cases this kind of infrastructure has even reduced the value of land.

6.3 Employment

For every 100 sows on farm there is about 1 employee. Some of the larger enterprises with 1000 sows would employ at least 10 people. There are usually additional employees such as milling and casual workers as well. Previous studies have found that that for every employee directly involved in pork production there are over twice that employed indirectly in the industry. These people and the businesses they work for are usually located in the regions surrounding pork production and play a major role in regional communities. These kind of supporting businesses include veterinarians, animal nutritionists, animal health representatives, rural supply workers, transporters as well as abattoirs, processing plants and wholesale workers.

Therefore for every enterprise that closes and loss of sows from the industry there will be a flow on effect throughout the industry as well as through the community. The DPI has done some work in this area and results show that intensive industries, in particular pork has a major link with support agencies and the communities they are in. It is no surprise then that with the loss of producers in the last three years, the number of employees in the pork industry has also fallen 17% to 10,750 full-time jobs with 33,000 jobs indirectly.

6.4 Regional/community impacts

From a survey of 15 producers in the south west NSW region of Young 5,550 sows have gone out of production in the last few months. This accounts for 111,000 less pigs being slaughtered next year (based on 20 pigs per sow per year). If \$180 is spent per pig on support services in the local region, \$19,980,000 in total is lost from that region in one year. As stated earlier, at least one person is employed for every 100 sows. So from these 15 enterprises, at least 55 employees have lost their jobs in this region in one year and this accounts for \$2,497,500 lost in wages (\$45,000 per person). A study in Western Australia (Islam and Johnson, 1997) showed that for every \$1 of wages paid in a piggery

\$6.57 of wages was created in the local economy. Therefore the loss in wages above would account for a loss of \$16,260,750 in the local economy in one year. This has been confirmed by producers as well many stating they have 79% of their operating costs tied up within a 100km radius of their local community and 97% within NSW.

6.5 Other parties

The injury that imports are causing in the industry is far greater than injury caused to producers. Local abattoirs are with reduced through put which affects efficiency and cost of production. One producer stated that 5 of his closest abattoirs had closed down in the last 10 years including one at Tamworth, Scone and Mudgee.

For the processors, a huge cost is associated with storing imported products in freezers. If they could get this produce locally and fresh their cost of production would reduce significantly. They too have reported reduced through put and higher costs of production.

Meat products such as beef and lamb have increased in price as a response to an increase in cost of production. This has not been the case with pork however. Imports have placed a cap on pork prices which is good for consumers in the short term because the price is kept low. However, if the domestic industry shrinks so much that it can no longer supply the market, demand for imports will increase and in the long term prices increase and consumers no longer have the choice between local and imported products. It is fundamental knowledge that a healthy domestic industry is better for consumers because it maintains competition, keeps prices low and provides choice. This is the very reason for the USA and European countries subsidising the production in their local industries. The Australian pork industry needs support if consumers wish to maintain choice and competitive prices.

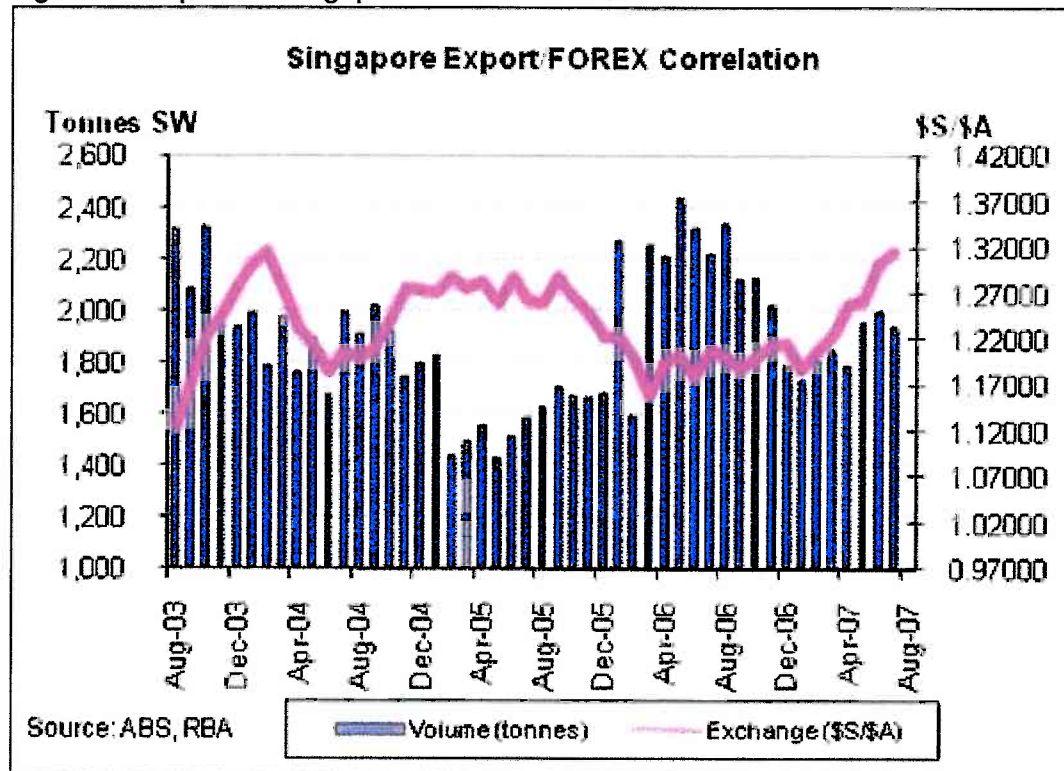
The quality assurance standards that exist in the domestic industry are there for consumers. These standards vary from country to country. An issue has been raised in the community about the use of Carbadox in the USA. In Australia this product is not registered for use on pigs and raises compliance and residue monitoring issues with imported products. In an era of climate change consumers are also concerned with imported products being transported vast distances and the effect this has on carbon emissions. It could be argues then that consumers should choose Australian produce, however the labelling is so confusing consumers generally have no idea where it is from.

The industry is working hard on all of these issues, however with reduced pig slaughter numbers there is less levy money going to APL. This will make it continually difficult for the industry to move forward. With some support however, the industry has time to recover from this slump and get back into a competitive position.

6.6 Other Factors

The exchange rate and the affect this has on exports must also be considered when looking at damage to the industry. Singapore is Australia's main export market and despite an increase in the exchange rate and price fluctuations of 25% the volume of pig meat exported to Singapore has held steady (See figure 15). Therefore the exchange rate cannot be held responsible for injury in the industry.

Figure 15. Exports to Singapore & FOREX correlation



Summary of the injury imports have caused

- Injury has been caused directly by imports which has interfered with domestic supply, depressed price and prevented normal seasonal price variation
- Domestic production has reduced from 500,000 pigs being slaughtered in 2003 to 400,000 in 2007
- Many producers are losing 0.60c/kg or \$20,160 per week
- In the last 3 years:
 - The number of establishments reporting pigs has fallen 15% to 2,426
 - The total number of pigs has fallen 5% to 2.755 million
 - Employee numbers have fallen 17% to 10,750 full-time jobs (directly employed with pig production) and 33,000 jobs (indirectly employed with pig production)
- In the last few months sow numbers have dropped 10% to 260,000
- The loss of jobs and support services associated with pork production has had an enormous impact on regional communities
- If some kind of import restriction is not provided, domestic production will fall below the critical point required to sustain the current share it holds in the market. If this occurs there will be an increase in demand for imports, prices will rise and consumption will fall. This will result in damage which would be difficult to repair
- There is a huge amount of capital tied up in infrastructure which has no other use outside pig production and in some cases reduced land value.

7. SAFEGUARD MEASURES

7.1 Safeguard measures which would remedy serious injury imports are having on the pork industry

In the 1998 inquiry it was found that safeguards were warranted. However safeguards were not put in place. The situation of the industry since then has worsened to a beyond critical point. Data from the last five years just strengthens these findings.

It is clear that some kind of restriction on imports is required either by means of a tariff or quota to reduce imports, improve demand, increase prices and improve profitability for producers. This relief must be immediate and proportional to the injury caused. It must also be sustained for a period that will allow producers' businesses to recover, so they can reinvest and make necessary improvements that will enable them to be competitive in a world market. As this is temporary relief, there must be an adjustment process in place so that when restrictions are removed they are done so gradually and in a structured way with relevant support. This will help producers adjust to competition in an unrestricted world market and will prevent this situation happening all over again.

Scenarios show that if relief is not given immediately, the damage that will be caused will be irreparable. It is highly likely that domestic production will fall below the critical point required to sustain the current share it holds in the market, there will be an increase in demand for imports, prices will rise and consumption will fall. This is devastating for all parties concerned from producers, abattoirs, processors, wholesalers, exporters and consumers.

8. IMPACT OF SAFEGUARDS ON OTHER PARTIES

As mentioned previously, it is fundamental knowledge that a healthy domestic industry is better for consumers. It maintains competition, keeps prices low and provides choice. This is the very reason for the USA and European countries subsidising the production in their local industries. The Australian pork industry needs support if consumers wish to maintain choice and competitive prices.

Similarly, processors will have better choice under safeguard relief with improved local supply. Fresh produce means less costs are tied up in storing frozen imports and will also improve through put, reduce cost of production and profit.

The abattoirs in particular will have relief under a safeguard measure. This will occur with improved through put, reduced cost of production and therefore improved profits.

9. INDUSTRY STRUCTURE AND FEED COSTS

Feed is a major input in pig meat production, accounting for around 60 per cent of total costs. Grains such as wheat, barley and sorghum account for around 80–85 per cent of feed costs for the Australian pork industry. (PC 2005). Cost of production, in particular feed grain prices have increased over time, however they have only increased significantly in the last 2 years (figure 16). The damage caused by imports has been occurring since the 1998 Inquiry and is substantially worse now. This damage has just been exacerbated by high cost of production and is not the direct cause of the damage.

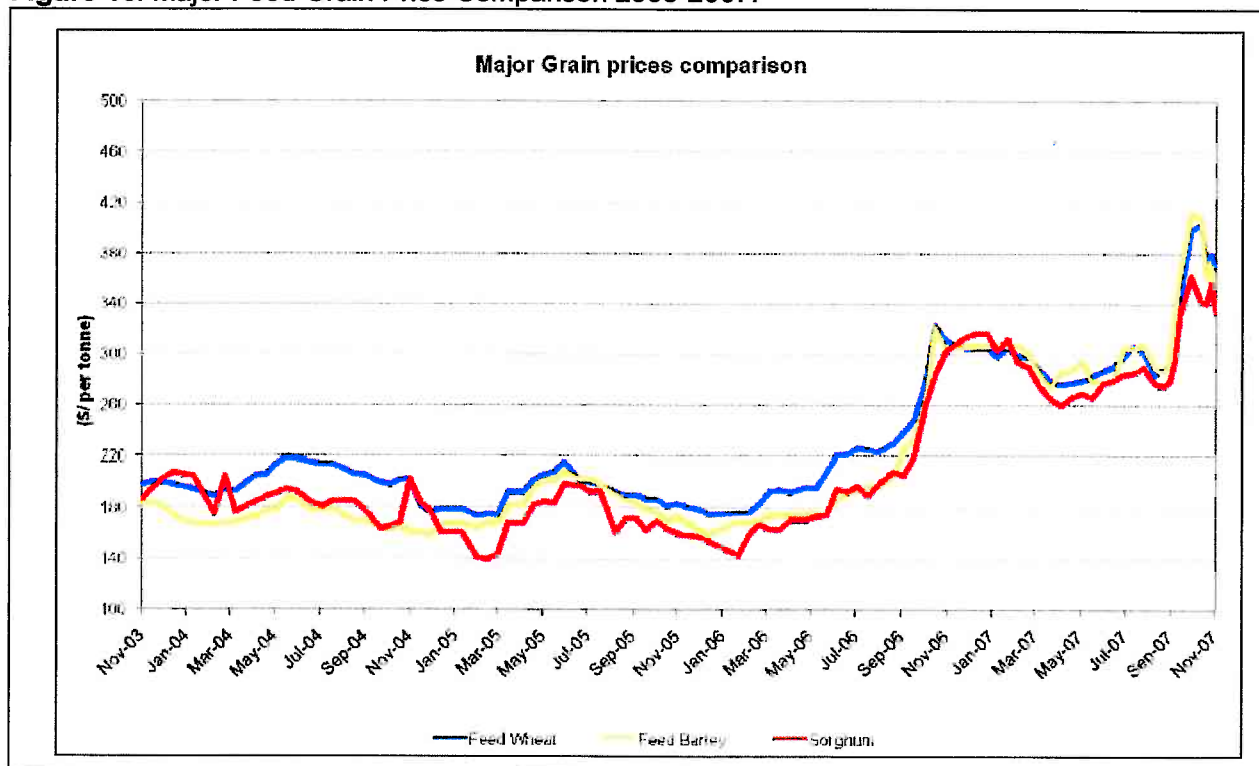
Producers are well aware of the cost of feed in their production system and they take action to manage this better and make up for it by improving cost efficiency in other

areas. For example as mentioned earlier, producers have made improvements in animal health, infrastructure (flooring and ventilation), reproduction (AI) and feeding out alternative feed stuffs. Many of the top producers are set up to feed out liquids such as dairy bi-products.

The Pork CRC aims to enhance the international competitiveness of the Australian pork industry by providing and adopting new and novel technologies that reduce feed costs and improve herd feed conversion efficiency. In other words, the Pork CRC is focusing principally on developing and applying new technologies to reduce the demand for feed, and to some extent improving the quality of feed grain.

It is already clear that imports have been increasing at a significant level for well over 5 years and the injury that this has caused has been evident for the same time. Cost of production, in particular feed costs have increased but this has only occurred at a significant rate over the last 2 years (figure 16). The injury caused by imports has been evident since the 1998 inquiry. In the time since that inquiry, imports have increased significantly and so to has injury to the industry. This injury has just been exacerbated by the high cost of production currently experienced by producers and is not the direct cause of injury.

Figure 16. Major Feed Grain Price Comparison 2003-2007.



Source: Eyes and Ears; Market news for the Australian Pork Industry. Issue #257 15th November 2007

10. CONCLUSION

This submission clearly establishes the direct correlation between the rise in imports and the fall in domestic prices. Low prices in turn are causing financial loss and declining rates of return on investment. Imports *alone* are causing serious injury to the Australian pork industry as a consequence of Australia complying with WTO obligations and that this, in turn, is adversely impacting on the competitiveness of the industry.

If the rate of imports continues at existing levels, or increases, as is likely, the consequences for the industry will be severe and irreparable.

Clearly, a case exists for provisional safeguards and the Association strongly recommends the Productivity Commission secure immediate relief through *temporary protection*, while orderly restructuring can be undertaken (as provided for in WTO rules).

11. REFERENCES

- ABS- Yearbook 2005
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