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20 February 2008

Gary Banks
Chairman
Productivity Commission
Pigmeat Safeguards Enquiry
LB2 Collins Street East
Melbourne VIC 8003

Dear Mr Banks

Productivity Commission's Safeguards Enquiry into the Import of Pigmeat

I am writing on behalf of the processor members of the Australian Meat Industry Council (AMIC). We welcome the Productivity Commission's Safeguards Enquiry into the import of pigmeat.

The beef, sheepmeat and porkmeat sector together are Australia's number one agricultural enterprise. AMIC is the only employer association and recognised Peak Industry Council in Australia representing the export and domestic meat processing industry.

AMIC is also the Peak Industry body representing the post-farm gate sector including smallgoods manufacturers, wholesalers, distributors and boning rooms and independent retail butchers – over 55,000 Australians directly employed in meat processing in Australia.

AMIC provides services and support to members that improves their working environment and is focused on achieving the best outcomes for the industry and its members.

AMIC presented a submission to the Enquiry dated November 23, 2007 but sent an addendum dated 13 December clarifying that the November 23 submission only represented the view of independent retail butchers and the smallgoods manufacturers in Australia.

The processing and export sector of AMIC have a substantial interest in the long term viability of the domestic pig production industry in Australia and as a consequence, have an alternate view on imported pork to that expressed in the smallgoods submission from AMIC dated 23 November. AMIC processors as an organization did not put a submission into the first reporting phase of the Commission's review but many of its processor members sent individual submissions. AMIC's processor members support an approach that would seek to ensure the long term viability of the pig production industry in Australia and therefore the pig processing industry that depends upon them for their raw material.

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The difference of views within AMIC reflects the difference of views across the 100 plus submissions you have received as part of this enquiry. For those involved in the production and sale of processed smallgoods, pork imports have now risen so quickly, they have become integral to their business. The change in import policy over the last decade and the revision of the import risk assessment on US pork at the same time as the US/Australia Free Trade Agreement in 2004, has allowed imports of pork to rise to levels where they now represent around 70% of their raw material. Consequently they will have a vested interest in protecting that supply source.

The change in import policy has essentially forced the domestic pork industry out of what was a high volume outlet in smallgoods into the local fresh pork sector and the export sector. What was the domestic industry's major customer a decade ago is now only accessible through heavy discounts.

The industry restructure and strategy implemented in 1998 with government funding, rejected the industry recommended WTO 201 action against pork imports at the time. As an alternate strategy, they looked to re-direct the industry's focus into new markets in the fresh domestic sector and on the export market. Australia's challenge of the 201 action in the U.S. against Australian lamb imports in 1998 could have been impacted had a 201 action in Australia on imported pork been progressed at the same time.

While in theory the push into chilled export and the local fresh market appeared promising, the reality has been very different. Government encouraged the implementation of this policy and it is clear a decade later that the strategy had a number of flaws. While exports have grown, it has represented only one-third of the volume that has been imported. The potential of the Japanese market has not developed as envisaged. That market is also still protected by a complex import management system. The growth in exports to Singapore has been a welcome relief but has represented a narrow marketing window based on "commercially attractive" air-freight and a specific local demand for fresh, full carcase pork unable to be supplied by Malaysia. How long that window will remain open or the cheap air-freight to access it is unclear.

Australia is importing up to 100,000 tonnes of pork per year, all for the further processing and smallgoods sector. This has reduced demand for domestic product that used to cater for this market, capping the price of Australian leg and middle cuts used for this purpose and competing away previously existing industry margins. The industry has been forced to load up cost to those cuts which can be marketed as fresh pork on the local market or exported. The rising cost of grain has certainly added to the cost of production contributing to a continuing cost price squeeze. A 37% appreciation in the Australian dollar has competed away any benefits from the export market strategy and has reduced the cost of imported pork, increasing its competitiveness domestically. These developments and the ethanol driven grain prices could not have reasonably been foreseen, even by the industry's best experts.

The accelerated report from the Productivity Commission dated 14 December 2007 clearly identified that:

Finding 2.2

Pig producers and primary processors produce products which are either like, or directly competitive with, imported pigmeat cuts.

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Finding 2.3

Import quantities have increased both in absolute and relative terms. The increase in imports appears to have been "recent and significant enough, and sharp and sudden enough".

Finding 2.4

Import growth was due to developments which could not reasonably have been foreseen.

Finding 2.5

In the Commission's assessment, the pig farming part of the industry is suffering serious injury.

The Commission admits that the domestic industry is producing products "like or directly competitive" with imported pigmeat and is suffering serious injury or is under threat of serious injury. Pig production levels are set to fall, reducing profitability due to lower throughput and increased unit costs.

Processors reject that the principal cause of this serious injury to the domestic industry is higher domestic feed prices by themselves. All producers around the world are facing these same high feed prices. The combination of high grain prices and an appreciating dollar has undermined the export strategy but lowered the cost of imports. These events could not and were not foreseen by any industry analysts. Cheaper imports have competed away the industries cash cow and the export strategy supported by government has not remedied this unforeseen imbalance.

For those sectors of the industry dependent on domestic production, the message from all the submissions received is clear. The industry is at a crucial point in its existence. There is going to be substantial fall-out which has the potential to be irreversible unless a committed strategy is put in place to rectify it.

Article 5 of the Agreement on Safeguards as part of the GATT Agreement of 1994 allows a member to "apply safeguard measures to prevent or remedy serious injury and to facilitate adjustment". AMIC processors would submit that there is "clear evidence" that serious injury is being caused by imports and that some form of interim protection is warranted and allowable under WTO provisions so that adjustment can take place. The beef and sheepmeat industries face tariff rated quotas in the EU and the US and safeguard provisions apply in Japan on beef and pork. Tariff protection against our beef exports continues in Japan and Korea where we face 36.5 % and 40 % import duties respectively while in Australia, pork imports face effectively zero tariffs.

AMIC processors believe a provisional safeguard consistent with Australia's WTO commitments, that would put some limit on imports for an agreed period, in concert with a government program of support for the domestic pork industry, as essential components of a readjustment package for an industry that otherwise faces a bleak trading future.

Yours sincerely



Steve Martyn
National Director Processing