8 October 2004

Pigmeat Inquiry
Productivity Commission
Locked bag 2
Collins St East
MELBOURNE VIC 8003

Fax: (03) 9653 2305

Email: pigmeatinquiry@pc.gov.au

Dear Commissioner

Submission to the PC Inquiry into the Australian Pig Meat Industry

Please find attached our submission as part of the Productivity Commission Inquiry into the Australian Pig Meat Industry.

The submission addresses issues that have impacted upon the sustained profitability and competitiveness of pork producers in NSW, including the damaging impact of imports on the industry and the need for appropriate trade measures to be implemented to benefit the Australian pig industry.

NSW Pork looks forward to participating in the public hearing in the near future.

I would also like to take this opportunity to invite you and your team to visit a few modern piggery units in NSW.

Kind regards.

Yours sincerely

Peter Roberson
Chairman, NSW Pork
NSW Farmers' Association

PRODUCTIVITY COMMISSION INQUIRY INTO THE AUSTRALIAN PIGMEAT INDUSTRY

Response to Issues and Questions Paper

October 2004

NSW Farmers' Association
Level 10, 255 Elizabeth Street
Sydney NSW 2000

Ph: (02) 8251 1700
Fax: (02) 8251 1750

NSW Farmers' Association Background

The NSW Farmer's Association (the Association) is Australia's largest State farmer organisation representing the interests of over 13,000 farmers – ranging from broad acre, meat, wool and grain producers, to more specialised producers in the horticulture, egg, pork, oyster and goat industries.

Executive Summary

A dramatic increase in heavily subsidized pork imports coupled with periods of excessive grain prices from a one in a one hundred year drought has led many pork producers to recently exit the industry.

Those remaining are facing a difficult future. In particular, imports are setting uncompetitive farmgate prices, recent amendments to quarantine laws create disease risk concerns and Government legislation continues to hamper the ability of industry to expand through the development application approval process.

While there is uncertainty over the long term impact of heavily subsidized imports, in the short term it is almost certain that unless something is done in the near future, there will be a sharp increase in bankruptcies, foreclosures and exits within the industry.

The NSW pig industry is familiar with the economic adversity associated with the pork market as well as the cyclical rise and fall in the size of the national sow numbers in response to prices. However the severity and duration of the current slump in prices are without precedent and is negatively impacting even the most efficient producers.

The difficult economic circumstances facing the industry suggest that more substantial changes are required for all sectors of the Australian pork industry supply chain. This can not occur in isolation. If the Australian pork industry is to improve its global position, it must be given the breathing space to enable adjustment to build the necessary competitive momentum to realign the supply chain and compete effectively with imports

It is for the above reasons NSW Pork is recommending the following to the Productivity Commission:

Recommendation 1

Assess the impact of imports and whether measures such as tariffs or quotas would benefit the Australian Pig Industry

Recommendation 2

Determine if grounds potentially exist for a Productivity Commission investigation specifically into safeguards

Recommendation 3

Align the inquiry recommendations with the long term strategies of the industry as detailed in Australian Pork Limited's draft Industry Restructure Plan

Recommendation 4:

Make recommendations regarding short term and long term assistance which will enable the Australian Pig Industry to achieve global competitiveness across the whole of the supply chain

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1. INTRODUCTION

The Association welcomes the opportunity to make a submission to this important Inquiry.

The NSW Farmers' Association is the largest private representative farmer organisation in Australia, comprising 13,000 members engaged in rural production throughout New South Wales.

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 all issues affecting agriculture and rural communities including the environment, trade, quarantine and international competitiveness.

2. BACKGROUND

The Australian pork industry comprises over 2,500 farms, is currently valued at over $1.1 billion and employs over 13,000 people. NSW is by far the largest producer and exporter of pork and pork products with a gross value of $257 million while employing over 3,300 people. Further details are attached at Annexure 1.

Furthermore, the pork industry exports $250 million annually, mainly as quality fresh meat to Asia. Hard hit by significant importation of subsidised pork meat from Europe in the 1990's, the pork industry has restructured effectively and dramatically to re-emerge as a vibrant, progressive and export focussed producer of quality meat.

However, the pork industry is now suffering significant cash flow problems as a result of the current 1 in 100 year drought and sustained and increasing subsidised pork products over time. Exacerbating this position is 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 appropriate recommendations made for the long term sustainability of the pig industry.

3. STRUCTURE AND REGIONAL DISTRIBUTION OF THE INDUSTRY

3.1 What changes to the structure and regional distribution of each segment of the pigmeat industry (producers, processors and manufacturers) have occurred in Australia over the last five years, both at an industry and firm level?

The last thirty years have seen substantial structural change in the Australian pork industry and this is continuing. In 1960, there were some 49,537 pork producers, who mainly grew out small numbers of pigs as part of mixed farming grain or dairy operation. However, during the difficult 1994-95 period over 1,000 piggeries closed, with some hundreds more leaving over 1997 and 1998. Most had made substantial capital investments. By 2001 the number of pork producers had reduced to 2,642. During the same period, average sow numbers per farm increased from 4 in 1960 to 114 in 2001 as producers met production shortfalls and sought lower costs of production through economies of scale.

Currently, the 1% of 'large' pig producers (over 1,000 sows) hold over 40% of breeding sows. The 80% of producers categorised as 'small' (less than 100 sows) together hold about 20% of sows and usually combine their piggery operation with other farm activities.

NSW is the largest producing State with (31.5% of farms), followed by South Australia (19.2%), Victoria (18.3%), Queensland (16.6%), Western Australia (12%), Tasmainia (2.3%) and Northern Territory (0.1%). Queensland and Victoria (45%) have a higher proportion of large herds. The pork industries in SA and WA (26%) are particularly important to their State economies.

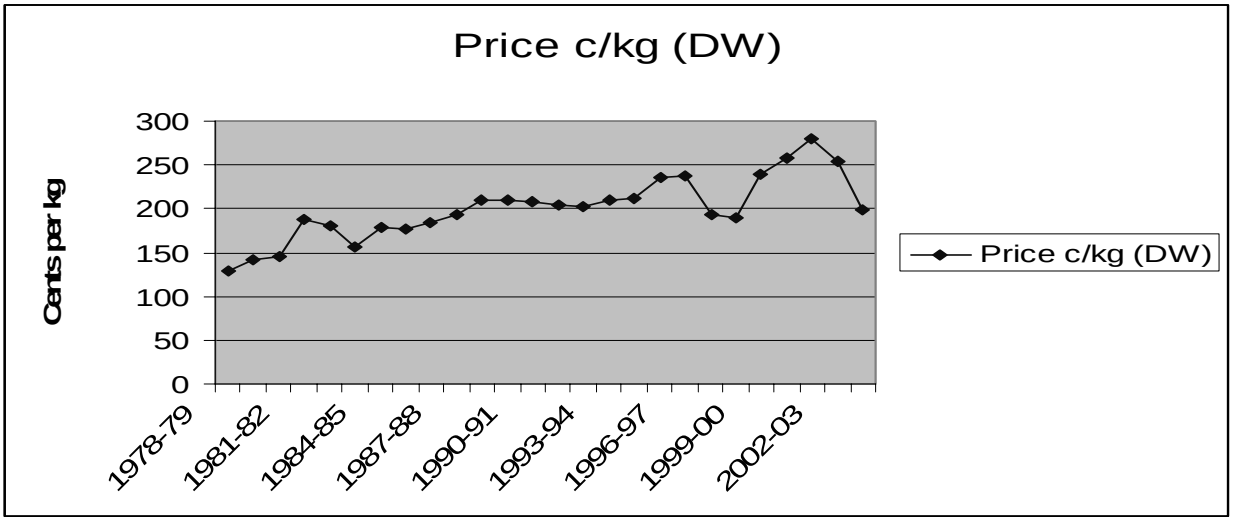
The primary stages of pig processing are mostly regionally based. Of the top 20 pig abattoirs, which handle 78% of pigs, only two are located within capital cities. The others are located on the outskirts of cities or, mostly, in regional centres as major regional employers. By 1999, the number of operative abattoirs in Australia decreased to about 120 abattoirs from around 140 abattoirs killing 5.1 million pigs in 1992–93. These are spread across regional Australia.

Boning rooms are attached to some abattoirs, and many unboned pork carcasses are sent to specialist boning rooms, butchers, and supermarkets across Australia. Rationalisation in the pigmeat processing sector has been less marked than in pig production.

3.2 What are the main reasons for these changes?

In the 1960's pork production was essentially semi intensive and a secondary industry to other agricultural pursuits such as dairying. However, as pork producers terms of trade (ie the ratio of prices paid to prices received) declined over time, producers were forced to reduce average costs to maintain profitability. This was achieved through the development of larger and more intensive piggeries, conversion of labour to more efficient capital infrastructure technology and the consolidation of smaller producers by larger corporate producers.

The below graph indicates an increase in farm gate price over time. However importantly when assessed against CPI over the same period, farmgate prices are declining in real terms.



Source: Australian Commodities Forecasts and Issues various issues

3.3 What changes have occurred in the types of pigmeat products produced?

In the last five years there has been a major thrust to enter export markets particularly, Japan and Singapore. These markets demand a fresh chilled pork product and heavier pigs.

3.4 Has this differed by region?

Producers in some regions such as Corowa, Young, Forbes and Narrabri have diversified into production systems geared towards export markets, where as areas such as Cowra/Orange, Dubbo, Far North Coast, Grenfell, Liverpool Plains, Mid Coast, South East Riverina and Tamworth produce predominantly for the domestic market.

3.5 Are there any trends in diversification or specialisation in pigmeat products?

As feed grain represents approximately 60% of pork production costs, many pork producers run diversified operations and produce their own grain and/ or are located in grain growing regions to reduce grain transport costs. Further, as commodity prices have reduced over time, many producers have turned to secondary off-farm income.

Pork production and processing infrastructure (like many intensive industries) has become more specialized and capitally intensive over time. For example, the emergence of export markets and a demand for larger pigs has led to larger, more specialized facilities to accommodate these pigs. This conversion has substantially increased the investment required for pork production though some of this cost has been offset by the use of technology and research such as 'eco shedding' and group production. However, this specialisation has reduced the ability of producers to further diversify into processing (and vice versa).

Specialisation has been a critical factor that has led to the increase in the use of contracts to grow out pigs. The use of contracts is not a new phenomenon in agriculture with 100% of chicken meat production conducted under contracts. This trend mirrors the US where 40% of all agriculture is contracted. The advantages of contracts are that they allow processors to have more control over production while providing security and reducing risks associated with price fluctuations for growers.

3.6 Have there been changes in technology, product quality, and marketing efforts?

Over time the uptake of new technology and research at a production level has been integral to the profitability and progression of the industry. The advances in nutrition, infrastructure, quality assurance and effluent management are but a few examples.

Australia has established a competitive advantage and reputation as a provider of clean, green disease free produce whilst being in close proximity to a number of strong Asian markets such as Singapore and Japan. This competitive advantage has been marketed extensively overseas. Australian Pork Limited has also increased its domestic marketing efforts to increase per capita consumption in recent times with some success.

3.7 What emerging trends, national or international, are likely to affect the current structure of each segment of the industry?

There are a number of emerging trends that are likely to affect the structure of pig meat production. The issue of land use conflict is likely to exacerbate over time as urban populations encroach on agricultural land and Local Governments approve further subdivision next to existing piggery establishments thereby threatening odour and noise buffer zones. Government in response to community concerns regarding odour, noise etc have also made it more difficult for piggeries to obtain development application approvals. Environmental legislation is also becoming more onerous over time in part due to the increasing scarcity of land but also as a result of a greater community awareness of environmental issues. Another trend that is impacting industry practices

is pressure from animal welfare groups on pig housing. These trends are both national and international and are changing the production and administrative practices of the industry.

3.8 Are there regulatory or other factors impeding the operation and adaptation of each segment of the industry to the emerging trends?

During the last six years there has been significant growth nationally however, the NSW industry has grown marginally as shown in Table 1.

Table 1: Change in Herd Size 1997 to 2003[1]

	1997 Herd Size (sows)	2003 Herd Size (sows)	% Change in Herd Size
Australia	298,815	355,770	19.1%
NSW	94,223	98,478	4.5%

Feedback from piggery owners in different regions of NSW suggest that one of the main reasons is due to government regulations. In particular, the Local and State Government Development Application approval process is both costly and time inefficient. This creates considerable uncertainty and effectively provides a cost deterrent for expansion and reinvestment. Secondly, vexatious type complaints in regard to amenity issues and animal welfare have created additional administrative burden on industry and Government despite these issues being a problem for only a small minority of producers.

3.9 What types of vertical and horizontal links exist in the pigmeat industry?

After considerable restructuring over the last three decades, the NSW Pork Industry is characterised by regionally-based business entrepreneurship. Horizontal links exist among producers through the use of co-operatives and alliances especially with small to medium size piggeries in the Far North Coast, Grenfell, Mid West and South East Riverina regions. This strategy is becoming increasingly important in the industry. While some vertical integration exists, the trend of increasing capital specialization and the costs associated with it, have deterred such integration.

3.10 Is there scope to improve the linkages between pigmeat enterprises, and if so, are there any regulatory or other impediments to this?

There is scope to improve linkages and integration opportunities between pork producers and with other supply chain participants. The use of such opportunities would better allow producers to market a more improved and consistent quality product at a more competitive price while allowing such producers to access economies of scale from such alliances.

There are no known regulatory barriers in setting up such linkages. There may be some tax implications depending on how the linkages are set up.

3.11 What arrangements are used in the industry to manage the risks associated with volatility in production and prices?

There are very few arrangements for producers to manage risks associated with volatility in production and prices. Producers are able to purchase grain on the futures markets and can alternatively purchase and store grain in times of low prices. However the cost of purchasing silo's and grain normally leaves this option unavailable to most producers.

1 Pigstats, various editions.

The use of alliances and cooperatives also help assist in the management of input price risks such as through the bulk purchase of feed grain, medication, feed premixes, nutritional advice and some equipment costs.

Thirdly, the increasing use of contracts allows producers to alleviate the fluctuations associated with some input costs such as grain prices. Producers have also demonstrated that as a last resort they temporarily destock their piggeries in order to minimize losses.

3.12 What capacity does the industry have to respond to price fluctuations?

Producers have a very limited capacity to respond to price fluctuations. Given the production line nature of pig farming, maturing pigs must be sold in a short time period with few alternative buying options. As such, producers are captive suppliers and have to accept whatever market prices exist during that time.

The extensive time lag involved with growing pigs to a marketable age also doesn't allow producers to take advantage of favorable market prices. This gives them little opportunity to manage famgate price fluctuations.

The existence of the single export desk for grain has also meant that Australia pork producers must purchase feed grain at world parity prices in order to secure supply. This adds to the difficulty that producers experience (especially during drought periods) when trying to minimize costs of production.

Since the 1990s, the Australian Pork Industry has become 'exposed to world markets'. When once pork producers could rely on higher demand and price rises for leg ham during the festive season, now imports fill this void and prices remain stagnant.

3.13 Who bears the risks of price changes - for example producers, processors, manufacturers and/or exporters?

Producers bear a large share of the risks associated with price changes due to the inability to transfer costs and risks up or down the supply chain. However it would be disingenuous to suggest that they bear all the risk. Processors also bear price change risks but are better able to maintain profit margins than producers due to their ability to pass on price changes.

3.14 What opportunities are there for short or long term contracts?

There are opportunities for short term contracts. However, in view of a number of industry uncertainties, the potential for more widespread use of long term contracts is dampened at present. Such uncertainties include in particular the possible significant increase in subsidised imports and disease incursions associated with these imports.

3.15 Are contracts used widely and is there potential to increase their use?

Larger pork producers have contracts with suppliers of inputs and with processors for marketable pigs. This trend is increasing among small to medium producers who currently have predominantly verbal type agreements predicated on trust and relationships developed over time.

There is potential to increase the use of contracts by small to medium size piggeries. In undertaking this step, it would also be wise to learn the lessons from producers in the poultry meat industry where regional oligopsony market structures and market power imbalances have led to 'take it or leave it' contracts and the transfer of risk and costs from processors to producers over time.

3.16 Are there any regulatory or other barriers impeding entry into, or exit from, pigmeat production, processing or manufacturing?

The barriers to entering the pork producing industry include:

a. Large upfront capital infrastructure costs.
b. Requirement that piggery be located within a close relative proximity to processing facilities.
c. Requirement that piggery be located within a close relative proximity to grain.
d. Expensive and lengthy Local and State Government Development Application approval process for piggery developments.
e. Opposition by neighbours, the community and/ or the Local Government to piggery developments.

The barriers to exiting the pork producing industry include:

a. The lack of alternate uses for specialized capital infrastructure.
   The skill base of pork producers.

3.17 What are the costs and lags associated with establishing viable pig farms and abattoir and processing/manufacturing facilities?

In general there is a time lag of around 4-5 years to establish viable pig facilities. This is broken down as follows;

Year 1 – find and purchase site
Year 2 – obtain Development Application approval and an Environmental Impact Statement
Year 3 – Build production facilities
Year 4 – Build up herd numbers
Year 5 – Sell mature pigs

In 1990 it was costing a pig producer around $3,500.00 per sow to establish a piggery. This included the cost of Land, Environment Impact Study and costs related to Development Approval. In 2004 the cost has gone up to $5,000.00 per sow or an increase of 43%.

4. TRENDS AND FACTORS INFLUENCING DEMAND AND SUPPLY

4.1 Consumption

4.1.1 What are the primary factors influencing consumption of pigmeat products in Australia and demand for Australian pigmeat products overseas?

Prior to 2003, pork was traditionally viewed as a Sunday roast dinner. Consumers also held the perception that it was very fatty, hard to cook and expensive. Some consumers were also put off by boar taint in some of the cuts.

In 2003, the industry embarked on a domestic advertising campaign to educate the consumers on the nutritional, quality and cooking aspects of pork which saw a dramatic jump in pork consumption. Pork is also now seen as very competitively priced which has also contributed to increased consumption.

The major factors driving demand for Australian pork overseas are its disease free clean green image, quality assurance, reliability of supply and price competiveness. The close proximity of Australia to the Asian market is another contributing factor.

4.1.2 What products compete with fresh pigmeat, bacon, ham and smallgoods, and to what extent?

Imported pork products are the major competitors of locally produced pork. However chicken, beef and lamb also compete as substitutes for pork on particularly a price basis.

4.1.3 What trends in consumption are evident?

Total consumption of pork has increased by 9.5% since 1994/5. The consumption of pig meat per capita has also increased in recent times after a period of relative stagnancy. This has been a concern to the industry and has resulted in increased promotional spending. Table 5 shows the consumption trend over the last four years.

Table 2: Derived demand for pigmeat in Australia

Year	Total Population	Total Consumption (Tonnes)	Average Consumption/capita (kg)
1994/95	18,071,758	365,743	20.2
1995/96	18,310,714	351,260	19.2
1996/97	18,517,600	348,674	18.8
1997/98	18,711,300	346,893	18.5
1998/99	18,925,900	361,030	19.5
1999/00	18,925,900	366,142	19.7
2000/01	19,153,400	362,318	19.8
2001/02	19,413,200	367,663	18.4
2002/03	19,662,800	400,425	20.7

4.2 Production

4.2.1 What are the primary factors influencing production of pigmeat products in Australia and overseas markets?

There are a range of factors that determine Australia's level of pork production. These include domestic supply, the level of imports, domestic and overseas demand, exchange rates and world parity prices. However other factors such as cost of production are also important. For instance, in 2003 drought induced grain prices increased by as much as 100% and many producers chose to temporarily destock their piggeries until conditions improved.

4.2.2 What trends in production are evident?

The pork production trend in Australia has clearly been one of growth. Despite the reduction in pork producers over time, increase in imports and more recently drought, production has increased through improvements in average her sizes and slaughter weights. Total pig meat production for 2005 is forecast at 390,000 tonnes, down from the revised estimate of 403,000 tonnes for the previous year. This reduction in forecasted production is directly in-line with the forecast

decrease in slaughter, with derived average carcass weight remaining largely unchanged.

4.3 Imports

4.3.1 What types of pigmeat products are imported into Australia and how are these products used?

Although imports are currently limited to cooked, bone-out, raw material for supply to the smallgoods manufacturing sector, low-cost foreign pork has become a critical element of future business strategies of several major Australian industry players. Canada mainly imports boneless leg meat while Denmark imports predominantly middles. This has occurred due to supply and price risk management, product specification requirements and drive for market power.

4.3.2 Has the volume of imports increased in recent times?

Imports have increased by 1,148% in the last decade and now represent 20% of total production. More importantly, Canadian ham now accounts for around 30% (Carcass Weight Equivalent, CWE) of the leg ham market. This is quite significant as this is a premium market for smaller producers that previously lifted the value of the whole pig. The result of this market share is that all ham prices in Australia now reflect world parity.

Table 3: Market share

	June 96	Dec 96	June 97	Dec 97	Jun 98
Market Share CanadianHam (%)	9.70	18.30	26.60	27.60	23.50
Price Australian Ham $	5.90	6.10	5.20	5.10	4.00
Price Canadian Ham $	4.00	3.75	3.90	4.00	3.30

The table above indicates that the price of Canadian ham is substantially less than the price of Australian ham. As the price disparity between Australian and Canadian ham increases (June 1996 to December 1996) so too does the market share occupied by Canadian ham. Also as the market share of Canadian ham reaches a substantial level (June 1997) the price disparity between the two products begins to diminish (June 1997 - 1998).

Imports of pig meat into Australia have risen during the time that Australia has been importing pig meat. However over the past four years imports have increased annually and quite substantially. The table below shows the level of imports and the increases in their levels.

Table 4: Imports of pigmeat

Year	Import	Increase (tonnes)	Increase (%)	% Total Market
1994/95	4,450	1,484	33	2.0
1995/96	4,132	- 318	- 7	2.1
1996/97	9,985	5,853	141	5.2
1997/98	10,175	190	2	5.2
1998/99	10,191	16	0.2	2.8
1999/00	26,278	16,087	158	7.2
2000/01	34,802	8,524	32	9.6
2001/02	34,609	-193	-0.6	9.4

2002/03	45,373	10,764	31.1	11.3
2003/04	55,527	10,154	22.4	

As can be seen from this table, whilst imports only occupy a relatively small share of the market tonnage, they have increased substantially over the past five years.

Pig meat imports for 2004 are estimated at 75,000 tonnes and are expected to increase to 80,000 in 2005 on the back of historically high Australian dollar levels combined with lower domestic production.

4.3.3 What factors have contributed to changes in imports?

Imports have risen since import restrictions were revised in 1990. The combination of a series of events – including: the cost-price squeeze of the 1994/95 drought, an exodus of pig producers, high domestic pork prices and relatively low import prices in 1996 – encouraged processors to import legs of pork in 1997. These import volumes grew further in 1997 and 1998 leading to a collapse in Australian pig prices driven by high levels of carry-over stocks and increased production. Yet in 1998, the Australian pork industry could still be classified as being largely a domestic industry with imports representing 4.6 per cent of total Australian production. Since that time however, levels have grown to 45, 920 tonnes in 2002 (20.2 per cent of total production), which has brought with it some significant impacts.

4.3.4 What effect have imports had on Australian markets?

Imports have had the effect of setting a lower domestic benchmark for prices paid to Australian producers given the fact that such imports are subsidised. In many cases the producers were forced to accept prices below their cost of production.

An average pig farmer marketing a load of 120 pigs a week was losing between 10 – 15 cents a kilogram in 2001/2002 which translated to $1,000 - $1,400 per load or a monthly loss of close to $6,000.

4.3.5 To what extent do the world prices of various pigmeat products affect domestic prices? For example, are domestic prices of fresh pigmeat closely aligned with the price of imports of frozen pigmeat for manufacturing?

Traditionally the Australian market price for pig meat fluctuates seasonally with a price peak before Christmas and a trough from April through to June. However, as competition from imports has increased, the market has flattened as processors and retailers are able to import large amounts of pig meat (particularly leg ham) to adequately meet the increased Christmas demand.

Table 5: Australian pigmeat prices

Year	1st June	16th December	Seasonal Variance
1995	190 c/kg	232 c/kg	+ 42 c/kg
1996	235 c/kg	260 c/kg	+ 25 c/kg
1997	205 c/kg	212 c/kg	+ 7 c/kg
1998	165 c/kg		

As can be seen from the above table, as the competition from imports has increased, the seasonal variance (ie increase) in pig meat prices has also declined. The significance of this is that producers who rely on the increase in pig meat prices before Christmas to lift their overall profitability have been progressively disadvantaged. Also the prices received for a particular season have decreased over 12 months e.g. December 97 and June 98.

In summary, the pig meat market has changed considerably over the past five years and is now much "flatter" and generally much lower prices are received by producers.

The three largest pork exporting countries in the world, in descending order, are the United States, Denmark and Canada. The United States and Canada export 41% of the world's pig meat and are influential in setting world prices. The table below indicates this, using figures from the Chicago Mercantile exchange.

Table 6: World market prices

	June 96	*Dec 96*	*June 97*	*Dec 97*	*Jun 98*
Pork Bellies UScents/pound	70	80	74	55	55
Live Hogs UScents/pound	58	78	80	58	52

Prices in North America fell substantially during 1997 and into 1998 and so showed much the same trend.

Australian Fresh Pork Market

The Australian pig meat that is used for the fresh pork market is from much younger pigs (4 months - 65kg) than is used for bacon (24 weeks 90kg). As has previously been discussed, the contract bacon price has fallen in line with the price of imported ham, which fell in line with north American pig meat prices. This in turn has had an effect on the fresh pork market with producers being encouraged to sell their pigs earlier at an earlier age and so increasing the supply.

Table 7: Australian fresh pork and baconer prices

	Dec 96	***June 97***	***Dec 97***	***Jun 98***
Fresh Pork A$/kilogram	3.00	2.50	2.50	2.00
Contract Bacon A$/kilogram	2.00	2.25	2.25	1.75

4.3.6 Is there potential for importation of new pigmeat products?

Once the US and other countries get approval to export pork under the revised quarantine protocols, new pigmeat products are likely to be exported to Australia

4.3.7 What would be the impact of such imports on producers, processors, manufacturers and consumers?

Increases in imports will force producers to exit the industry.

4.3.8 Are there any issues with Australia's quarantine system (for importers)?

Until recently, only three countries were approved to ship commercial quantities of pig meat to Australia – Canada, Denmark and New Zealand. According to official ABS statistics, Australia imported a total of 52,800 of pig meat (shipped weight) in 2003, of which Canada supplied 32,000 MT and Denmark supplied about 20,400 tonnes, with only minor quantities imported from New Zealand.

On May 10, 2004, the Australian Government announced new import conditions for pig meat, including additional countries that can supply pork products. Australian Pork Limited (APL), the peak body representing the pork industry, actively sought to overturn the decision and, when unsuccessful in the appeals process, filed a court case challenging the decision. Of particular concern to the industry is Post Weaning Multi-Systemic Wasting Syndrome (PMWS) which has no know cure and Australia does not currently have.

APL is seeking that the court review the government's actions to ensure that the import protocols developed in the Import Risk Assessment will limit the level of risk for PMWS to an acceptably low level. APL has also indicated that, in this case, quarantine conditions were not developed through a science-based process. A "Directions Hearing" of APL's application filed in the Federal Court in Sydney was held on August 10, 2004 and full hearing has been set for 8th – 12th November.

4.3.9 How are international competitors responding to international trends in pigmeat production and prices, and overseas government programs?

Australian Pork Limited is best able to respond to this question.

4.4 Exports

4.4.1 Which export markets are being targeted by Australian pigmeat producers, processors and manufacturers?

The Australian pork industry has managed to secure some strong gains in 2002 on the back of its niche positioning. Pig meat export volumes for the year increased from 53, 000 tonnes shipped weight in 2001 to 65, 000 tonnes shipped weight in 2002, representing an increase of 23 per cent on previous year levels. Total pigmeat exports are now valued at over $270 million per annum. This growth continues to be built around the markets of Singapore and Japan, which constitute 71 per cent of Australia's total pigmeat export volumes.

	FARMED PIGMEAT EXPORTS					
	TOTAL		**SINGAPORE**		**JAPAN**	
	Volume Tonnes SW	Value $A (million)	Volume Tonnes SW	Value $A (million)	Volume Tonnes SW	Value $A (million)
2002	64,520	270.3	30,771	121.1	14,989	101.7
2001	52,595	222.1	28,913	113.7	10,374	70.6

Source:ABS/APL

Statistics showing export tonnages of pig meat are corrupted by the inclusion of feral pig meat. However it is possible to determine the level of farmed pig meat by applying the percentage of farmed pig meat to the total. This is shown by the table below.

Table 8: Exports of pigmeat

Year	Total Exports (t)	% Farmed	Total Farmed Exports (t)
1994/95	7,103	67.7	4,809
1995/96	7,043	71.8	5,057
1996/97	8,615	70.7	6,091
1997/98	14,119	83.9	11,846

General trend indicates that exports have risen substantially since 2001 as is shown below in the two graphs under item 4.4.4.

4.4.2 How do the returns differ between the types of pigmeat products, and between domestic and export markets?

Australian Pork Limited is best able to answer this question.

4.4.3 How do these returns typically change within a year and how have they varied over the years?

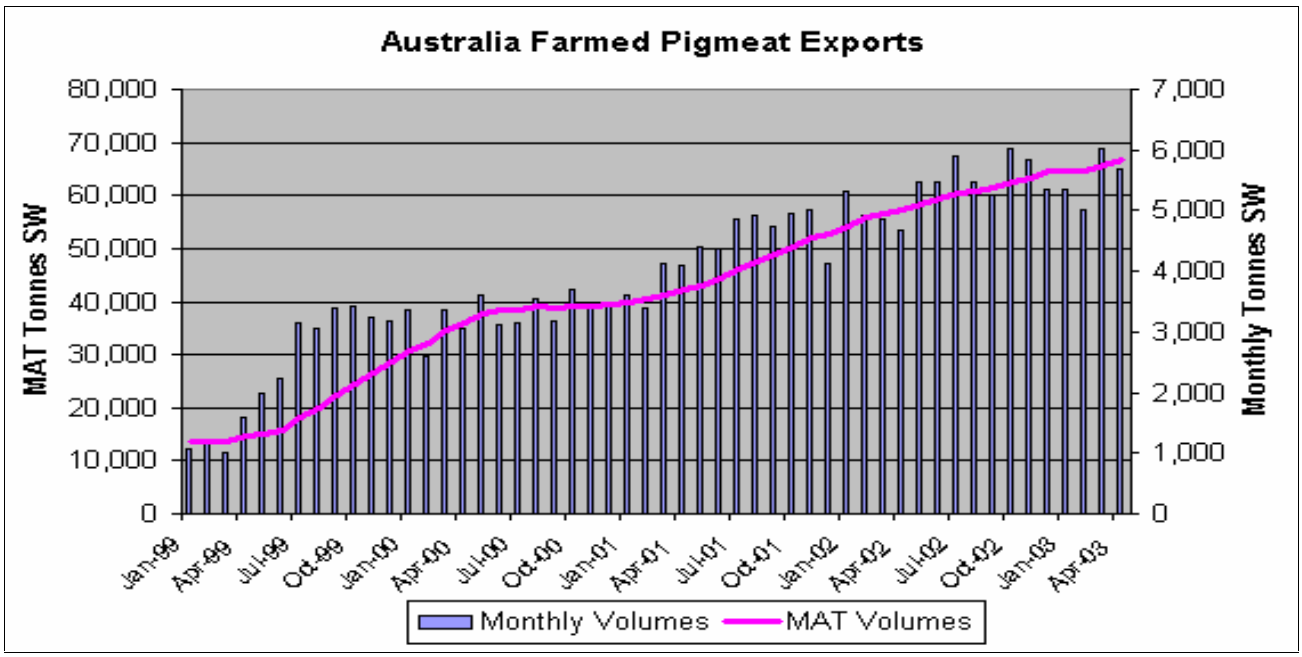
Competitively priced US pork, assisted by a weak $US, has continued to hurt Australia's pigmeat trade with Japan. Demand for Australian product by Japanese importers continues to be high, yet recent exchange movements have placed considerable pressure on exporters ability to supply product at the prices that have been attained over the past year.

As a result of the BSE case in Canada, the U.S., Japan and South Korea have all banned beef imports from Canada. With Canada supplying around 6% of total U.S. beef supply as product or live cattle, this could have significant repercussions on global beef prices, which in turn should effect pork prices worldwide. It is still uncertain as to whether this will have a noticeable short-term impact on the Japanese pork trade yet there is definitely potential for an upswing.

Despite being able to shift additional volumes of Australian pork as a result of the SARS virus, the Singapore trade is also facing pressure from the appreciating AUD. Based on exchange rate alone, imports of Australian chilled pork have become 11% more expensive since April 2002. This is placing some pressure on Singapore's trade in higher valued, fresh or chilled pork, a segment of the market in which Australian pork exports is dominant.

4.4.4 What factors influence the success of Australia's exports of different types of pigmeat products?

Pork export volumes in April 2003 were still strong despite the appreciating AUD impacting on exporter margins. April 2003 MAT export volumes remain 17% above previous year levels, however the return on these exports averaged $3.65 per kg, the lowest monthly level since mid 1999. This has been influenced by a growing proportion of frozen pigmeat exports (as opposed to fresh or chilled) that have consisted of 35% of total pigmeat exports in the first four months of 2003. This is a 5% increase on the 2003 calendar year.



Source: Australian Pork Limited

The exports to our major markets as of June 2004 are shown below

	FARMED PIGMEAT EXPORTS					
	TOTAL		**SINGAPORE**		**JAPAN**	
	Volume Tonnes SW	Value $A (million)	Volume Tonnes SW	Value $A (million)	Volume Tonnes SW	Value $A (million)
Jun-04	4,345	14.4	1,667	5.5	723	4.2
May-04	4,710	16.4	1,855	6.1	848	5.2
May-03	4,991	17.4	2,197	7.7	936	5.4
MAT	54,375	185.5	24,023	80.8	10,623	58.4

Source:ABS

Moving Annual Total (MAT) volumes of Australian pork exports are now 18.3 percent below previous year levels, reflecting the changing export environment over the past 12 months. While the AUD has continued to depreciate against Australian pork's major trading partners since February, volumes have stabilised around the 4,000-4,500 tonne per month mark as those supplying the global market consolidate their positions. At the same time exporters are keeping a close watch on the relatively erratic global market conditions that have been plagued by exchange rate fluctuations and disease outbreaks such as BSE and Avian flu in the past 12 months.

Australian pork exports to Japan in June were 22.7 percent lower than June 2003 volumes as the market tried to recover from the unsettling effects of the Safeguard's removal in April. Japan's June pork imports only need to exceed 34,807 tonnes in order to reach the 257,000 tonne trigger level for the first quarter of FY2004 (April to June). There is a common view in the trade that it will be impossible to keep Japanese pork imports below this trigger level.

The Safeguard on imported pork was triggered again in August for the fourth consecutive year.

Pork Cut	**Percentage of total pork exports to Japan in June**

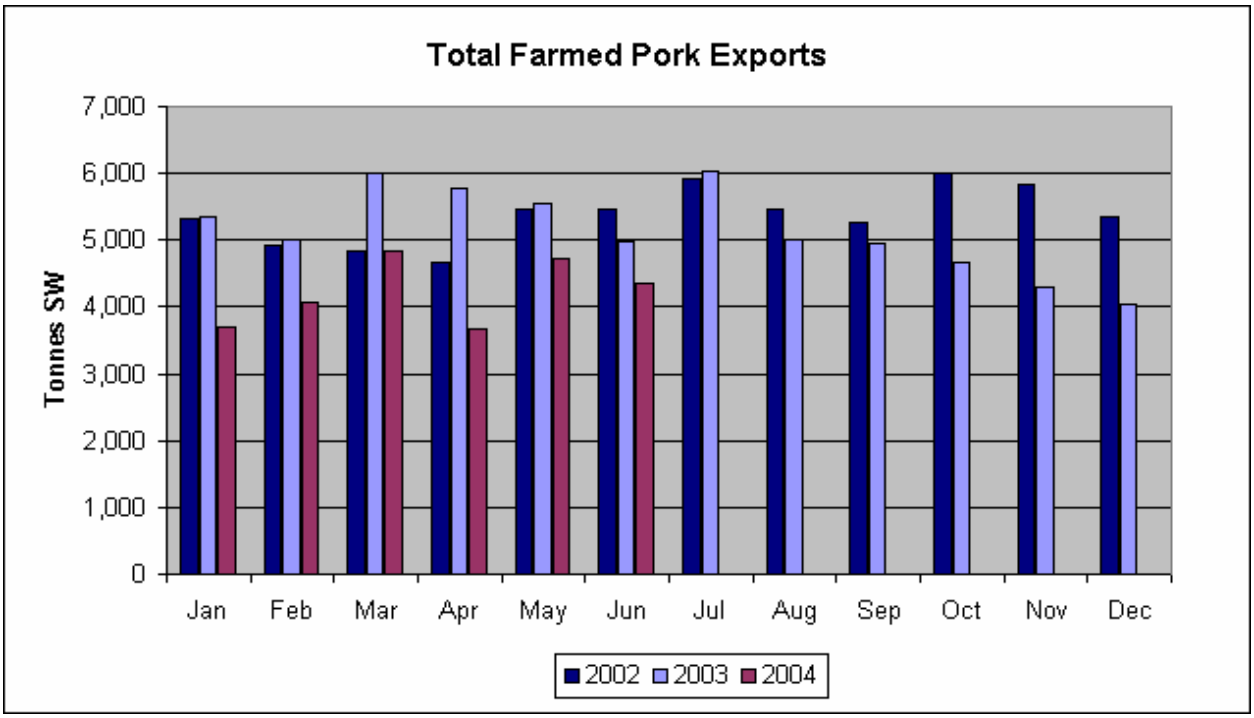
Loins	31.2%
Bellies	28.3%
Shoulders	13.3%
Collar Butts	11.1%
Manufactured pork*	5.7%
Leg cuts	4.6%
Tenderloins	3.3%

**further processed pork*

Source: DAFF

Competition from frozen pork continues to be the main threat to Australian pork exports to Singapore. In June, Australia's share of the Singapore pork market was 19.7 percent compared with the 27.4 percent recorded in the 2003 calendar year. Australia's pork exports to Singapore in the past 12 months are now 21.1 percent below previous year volumes.

New Zealand continues to be a strong market for Australian pork shoulder meat, with export tonnages again marginally outweighing pork volumes exported to Japan in June.



4.4.5 Such factors might include seasonal advantages, market proximity, transport costs, exchange rates, quarantine restrictions, marketing, links with local agents. What are the regulatory or other barriers to Australia entering new overseas markets or expanding exports to existing markets?

Our weakness in entering new markets can be summarized as:

- Major pork producing countries either directly or indirectly subsidise their pork industries or impose tariffs on imports making competition on a cost of production level difficult
- Australia's small total production makes it difficult to provide large quantities of consistent quality product.

- Unstable feed grain prices and security of grain supply
- A lack of scale economies within the pork processing sector

4.4.6 What strategies has the pigmeat industry used to identify and exploit export opportunities?

The industry has set ambitious export targets to be achieved over the next few years and will drive this change principally through effective marketing of Australian pork, product innovation, better carcase returns, increasing pork competitiveness and by safeguarding our unique health status of the pig industry.

The increasing food safety concerns and animal disease out break worldwide provide the Australian pork industry the distinct competitive edge in the global pork and meat market.

4.4.7 How successful have these strategies been in terms of increased exports and returns?

The strategies have been very successful as our exports have increased from $46.5 million in January 1999 to $220.6 million in December 2003.

4.4.8 What strategies could the industry employ to expand export markets further?

The industry is looking at benchmarking its supply chain against international best practice, and put in place production specifications, product innovations and food solutions that target new and emerging market requirements through the $2 million government funded global marketing initiatives.

4.4.9 Are there any regulatory or other impediments to the development of more efficient marketing arrangements?

Australian Pork Limited is best able to answer this question.

5. IMPACT AND EFFECTIVENESS OF GOVERNMENT AND INDUSTRY PROGRAMS

5.1 What Australian or State and Territory government programs directly or indirectly affect the pigmeat industry?

FamBis funding for various producer training programs and Federal Government Exceptional Circumstances funding for drought assistance.

5.2 What are the objectives of the programs and how do they assist the pigmeat industry?

Department of Primary Industries organizes numerous programs for pig farmers eg, Batch Farrowing, Pork Cost of Production, Approval process for development or expansion of piggery in NSW, environment Planning Workshops, Pig Health and Diseases, OH&S Programs. The objectives of the programs are to improve the efficiency and productivity on pig farms.

The various programs assist the pigmeat industry by reducing cost of production and increasing profitability. It also helps to improve competitiveness against and other meat products.

5.3 What are the levels and types of assistance?

The type of assistance basically relates to training funds through FarmBis.

5.4 Have participants in the pigmeat industry been able to access these government programs?

Producers have experienced difficulty accessing FarmBis funding for training programs due to a lack of available funds. This has hindered training of personnel for on farm production efficiencies and the adoption of improved technologies on farms.

Pork producers have had difficulty accessing Exceptional Circumstances funding for particularly the purchase of feed grain and stock water. The Federal Government has argued that because pork producers regularly purchase feed grain, drought conditions should be budgeted. However, no pork producer could have realistically expected the drastic feed grain price increases experienced during the recent drought and therefore this should be considered as 'exceptional'.

5.5 Are there any impediments to accessing these programs?

There are no impediments to accessing these programs when FarmBis funding are available. However since FarmBis funding has run out it makes it very difficult for pork producers to access these programs.

5.6 What information is available on the impact and effectiveness of these government programs?

The improvement in efficiency and productivity is proof of the effectiveness of the training programs.

5.7 Have these programs improved the profitability and competitiveness of the pigmeat industry or assisted in adjustment?

While the programs have contributed to improving profitability on pig farms however these cannot be quantified as there are many variables

5.8 What industry programs directly or indirectly affect the pigmeat industry?

The programs include:-

- Environment
- Reproduction and Nutrition
- Health and Welfare
- Processing and Products
- Growth and Genetics
- Technology Adoption

5.9 What are the objectives of the programs and how do they assist the pigmeat industry?

The aims of the programs are to improve efficiency and productivity in the supply chain of the pork industry.

5.10 What are the levels and types of assistance?

Australian Pork Limited is best able to answer this question.

5.11 Has the pigmeat industry been able to access these industry programs?

Yes, through various workshops and training programs e.g. Uptake 2004 which was a Forum used by APL to showcase as well as encourage producers to adopt new technology and innovations.

5.12 Are there any impediments to the pigmeat industry accessing these programs?

No, the programs are subsidized by APL and readily accessible to all producers

5.13 What information is available on the impact and effectiveness of these industry programs?

APL carries out evaluation of these programs and the results are available from them.

5.14 Have these programs improved the profitability and competitiveness of the pigmeat industry?

Yes, these programs have assisted in the competitiveness of pigmeat exports.

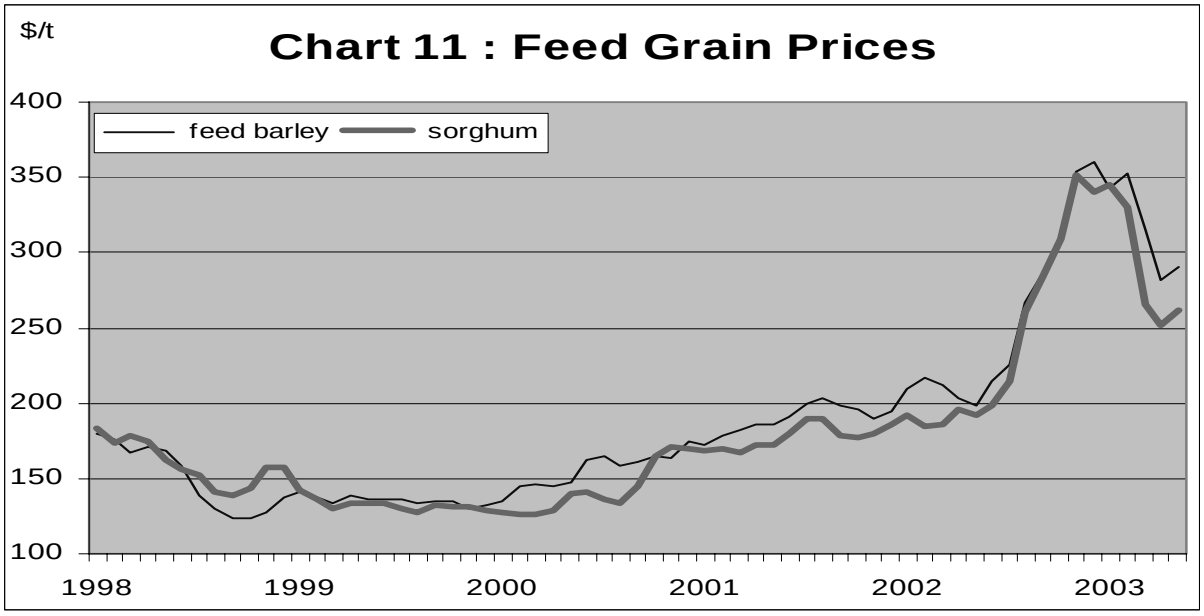
6. PROFITABILITY

6.1 What has been the recent and current financial performance (for example, profitability and indebtedness) of each segment of the pigmeat industry?

a) Grain Prices

While grain prices have subsequently declined, increases by close to 94%, from $180 a tonne prior to the on-set of drought to $350 per tonne in November 2002. This pushed the price of feed up by around $127 per tonne.

Pork producers have struggled with the impact of the explosion in the cost of feed, and have sought to reduce costs across their operations to stay profitable. However, prices have started falling since some of the intensive industries started importing grains. This instantly capped the feed grain market.



Source: ProFarmer, The Land

Many pork producers are unable to withstand the high cost of feed especially without a corresponding increase in the price of pork and pork products. Small to medium size pork producers have had no option but to de-stock their farms while others have closed down completely. In excess of 2000 sows have been culled to date in NSW.

While NSW Pork recognises that pig producers in other countries often face particular burdens not encountered by Australian producers (eg outbreak of Foot and Mouth disease), our cost of production figures confirm the NSW Pork Committee's frequently expressed view that the Federal Government have been too quick to impose costs and burdens on the pork industry without adequate consideration of the impact on its

competitiveness and its viability. A case in point is the recently announced quarantine policy on the generic pig meat.

b) Supply of Grains

Majority of the small to medium size pork producers are finding it extremely difficult to secure continued supply of grains at affordable prices, which is affecting their production and marketing plans.

c) Cost of Production

The pig cost of production on the average using wheat prices of $350 per tonne is $2.00/kg live weight, which translates into $2.66/kg Hot Standard Carcass Weight. This represents an increase in the average Pig Cost of Production of 29.9% between January 2001 to December 2002.

d) Summary of Price Increases

The cost/price squeeze has been very evident in the pork value chain. While the cost of production increased by 30.2 per cent between 1999 and 2002, wholesale prices declined by 18.2 per cent during this time forcing producers to absorb all the major cost increases such as feed cost, freight and water as a direct result of drought.

Despite the fall in the wholesale price, retailers continued to improve their margins by increasing their price by as much as 15.4 per cent.

	1999 Per Kg	**2002 Per Kg**	**Percent Increase/ (Decrease)**
1. Cost of Production	$2.05	$2.67	30.2
2. Wholesale Price	$3.30	$2.70	(18.2)
3. Retail Price	$7.80	$9.00	15.4

6.2 Are there differences in financial performance within each segment of the industry, and if so, why?

Australian Pork Limited is best able to answer this question.

6.3 What are the major factors (for example, feed, labour, transport) influencing this performance?

Australian Pork Limited is best able to answer this question.

6.4 Are there issues associated with quarantine, grain supply, food safety, industrial relations or environmental requirements?

- ***Quarantine***

There is a 95-99% risk of the incursion of PMWS in the next decade due to the recent change in pigmeat import protocols. This will increase the cost of production by 15%.

- ***Grain Supply***

The intensive industries are not assured of adequate supplies of good quality grains during droughts at reasonable prices. During such period prices increase substantially resulting in increase in cost of production.

- ***Environmental requirements***

The industry is subjected to unreasonable conditions by certain shire councils thus making it difficult for the producers to expand the operations to take advantage of economies of scale.

6.5 Which factors are likely to be short or long term influences on profitability?

Cost and supply of grains, government environmental legislations, animal welfare issues, exotic diseases and cost of new technologies, Occupational Health and Safety Act, Workcover and Payroll Tax will have a bearing on the profitability.

6.6 Has the productivity of labour, capital and other key inputs in each segment of the industry changed in recent years?

Australian Pork Limited is best able to answer this question.

6.7 What has driven these changes in productivity?

Australian Pork Limited is best able to answer this question.

6.8 What factors are likely to be significant in the future?

Animal welfare, environmental and health issues.

6.9 Are there any regulatory or other impediments to the industry implementing further productivity-enhancing changes?

Environmental legislation is likely to impede productivity in future.

6.10 Is there a minimum size for efficient farms or processing facilities?

A 250 sow unit is regarded as the minimum economical size piggery.

6.11 Are there any regulatory or other impediments preventing firms exploiting economies of size?

Urban encroachment and buffer zones is likely to impede farm expansion in the future***.***

6.12 Would increasing the size of enterprises at each level in the production chain improve the performance of the industry by lowering the unit costs of production?

As has been the case in most primary production sectors, costs of production over the past decade has increased remarkably. Producers believe costs of production currently to be around $2.00 per kilogram. When market prices fall below the cost of production the producer is forced to trade at a loss, as there are no opportunities to hold stock back from sale to wait for an improvement in the market price.

7. COMPETITIVENESS

7.1 What factors most affect the competitiveness of each segment of the Australian pigmeat industry?

Unlike many of the main players, such as the United States of America (US) and the European Union (EU), Australia does not have either an export subsidy program or a farm income support system.

Australian farmers receive some of the lowest levels of support in the world which on a per hectare of land basis, equates to US$3 per hectare of agricultural land in 1995, well behind the EU at US$854 and Japan at US$14,088.[2] Expressed in producer subsidy equivalents (ie as a percentage of value of production) Australia at 10% is well below the

[2] OECD (1997)

OECD average (36%) for livestock and well below the top three: Japan (49%), Europe (46%) and Canada (29%)[3]

7.2 What is the relative importance of those factors? If possible, provide quantitative evidence of the impacts of these factors (such as on production and on the volume and pattern of exports and imports).

Australian Pork Limited is best able to answer this question.

7.3 What changes have occurred in industry competitiveness over the last five years? Why have these changes taken place?

Australian Pork Limited is best able to answer this question.

7.4 What further changes in competitiveness are expected to occur and why?

Australian Pork Limited is best able to answer this question.

7.5 How does Australia's pigmeat industry compare with its major competitors (for example, Canada, Denmark, the United States and New Zealand)?

Australian Pork Limited is best able to answer this question.

7.6 Are foreign producers being subsidised by their governments?

Australian Pork Limited is best able to answer this question.

7.7 If so, in what ways and how has it affected production and trade?

Australian Pork Limited is best able to answer this question.

7.8 Are they selling their products to Australia at prices lower than their domestic market or than in other countries?

Australian Pork Limited is best able to answer this question.

7.9 What impediments to improving competitiveness are there in each segment of the Australian pigmeat industry?

Australian Pork Limited is best able to answer this question.

8. MEASURES TO ENHANCE COMPETITIVENESS

8.1 Is government or industry action necessary to enhance the competitiveness of the industry?

Protectionist policies primarily damage the protecting economy itself and are a luxury that Australia cannot afford. Such policies divert scarce resources from a more productive use and therefore reduce the potential of the economy to generate wealth.

However adjustment assistance could provide industry the opportunity to adjust smoothly, without detracting from the overall direction of change that is required.

The pig industry has undergone significant restructuring and has recognised the need to further adjust in order to compete internationally.

The Government has assisted in this process and has recently provided specific measures for processors to adjust and explore global marketing opportunities.

[3] ABARE (1998)

These are long term measures and will not help the pig farming sector of the industry in the short term. The industry needs some short term assistance for restructuring.

8.2 If there is a need for such action, what are the appropriate roles for government and industry?

The pork industry has experienced the effects of improved access for imports to Australian markets at a time that coincides with particularly low world prices. At the same time, their ability to compete for the Australian consumer dollar is hampered by inadequate labeling laws – which prevent them from differentiating their product in a meaningful way.

If the volume of imports - or the threat of imports - holds prices at current levels small local pig farmers will be forced to leave the industry and larger producers will reduce their herd sizes.

Government and industry need to discuss possible options to alleviate the impact of imports and to allow the industry to effectively compete on a level playing field with producer counterparts in other countries.

8.3 What should be the appropriate form of any measures?

The medium to long term strategy for the pork industry as proposed by the industry:

- Increase fresh pork sales (sales & margins)
- Increase carcase weight (reduced costs right through supply chain)
- Reduce feed costs
  Through Strategic Programs such as: Pork Cooperative Research Centre, Grain Importation and Strategic Procurement
- Create new pricing systems – long term contract pricing
  Through Strategic Programs such as: *Carcase measurement an payment system, Price discovery and contract negotiation*
- Animal health
- Build consumer loyalty for 100% Australian small goods
- Trade Measures – leveling the playing field

8.4 Where possible, participants should identify and/or quantify the likely benefits and costs of proposed measures.

Australian Pork Limited is best able to answer this question.

9. CONCLUSION

The immediate outlook for the Australian pork industry is one of continuing structural adjustment unless producers can receive assistance that will enable them to compete on a more level playing field with overseas producers.

Increasing import volumes, structural inefficiencies in the supply chain and the composition of the pork market, have effectively capped domestic prices and limited pig producers ability to recover costs. As the processed market and the fresh market are inextricably linked, any artificial downward pressure placed on pork product supplied into the processed sector in turn has a similar price lowering effect on the Australian fresh pork sector.

The difficult financial circumstances facing pig producers suggest that more substantial changes within the industry are needed. Government must play a role in this regard given the broad scope of the problems and related solutions that must be implemented.

NSW Pork believes that as supply and demand comes back into balance, the future of the industry will lie in greater differentiation in product marketing, increased value adding, greater integration between different players in the supply chain and improved co-ordination of the long term strategy proposed by Australian Pork Limited. These principles must henceforth underpin the development of the Australian pig industry.

10. REFERENCES

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5. Australian Commodities Forecasts and Issues various issues

6. Australian Pig Annual 2003

ANNEXURE 1

Australian Pork Industry Overview

PARAMETERS	NATIONAL	N SW	%
Total Number of Producers	2,914	815	28.0
Total Sow Numbers	332,494	102,126	30.7
Ave No. of Pigs Slaughtered Annually	5,402,400	1,885,000	34.5
Ave Pig Meat Production Annually (Tonnes)	395,535	144,148	36.4
Value of Production(A$)	$1.1b	$257m	23.4
Pork Value Chain (A$)	$2.5b	$652m	26.1
Employment (Direct)	10,750	3,300	30.7
Employment (Direct & Indirect)	33,000	8,000	24.2
Per Capita Consumption (Kg)	20.4		

Pork Exports (Tonnes)	61,712	20,943	33.9
Pork Exports Value (A$)	$221m	$75m	33.9
Pork Imports (Tonnes)	55,527		
Pork Imports Value (A$)	$201m		