



Submission to

**The Productivity Commission Inquiry - Annual Review of
Regulatory Burdens on Business: Primary Sector**

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**SUBMISSION BY AUSTRALIAN PORK LIMITED TO THE PRODUCTIVITY
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BURDENS ON BUSINESS: PRIMARY SECTOR**

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1. EXECUTIVE SUMMARY

This submission draws on a substantial body of analysis of regulatory impacts on the pork industry that industry body Australian Pork Limited (APL) has conducted over the past few years, and in response to the Productivity Commission: Annual Review of Regulatory Burdens on Business – Primary Sector Issues Paper (2007)¹. The submission suggests how some regulation can be reformed to improve industry competitiveness.

Some typical justifications for regulation which have included industry and government participation have focused on the pig industry's environmental responsibilities, traceability for food safety and for animal welfare.

Recognising these potential impacts, this has provided a strong rationale for government monitored self regulation or co-regulation. Co-regulation has allowed industry to closely align business priorities with those regulations imposed by the Australian Government, and the requirements of our domestic market and export destinations.

We detail preferred regulatory mechanisms and key areas for regulatory review and areas of regulatory improvement. They include:

- 1) Complicated State and Federal relations;
- 2) The lag times regarding developmental approvals for essential infrastructure;
- 3) Impacts relating to environmental legislation;
- 4) Changes to animal welfare such as the limitation on the use of and design of sow stalls and the impact on a producer's profitability over the long term;
- 5) O H and S and Workers Compensation Regulation;
- 6) Changing food regulations and the resultant costs regarding The National Residue Survey (NRS) in relation to the *Australian Standard for Hygienic Production of Meat*;
- 7) Inequitable transport regulation;
- 8) Ability to engage in cost recovery;
- 9) The grain market structure in Australia and the indirect impacts of levies and subsidies for biofuel production, and legislating ethanol in gasoline in different states; and
- 10) Regulatory partnerships including industry and government such as the co-regulated PigPass NVD system and the development of the Model Code of Practice for the Welfare of Animals – Pigs.

¹ <http://www.pc.gov.au/regulatoryburdens/primarysector/issuespaper/primarysector.pdf>

APL regards these areas as significant to the development of the Australian Pork Industry. APL believes that regulation should be based on clear market failure, or quantified societal expectation criteria. Regulation should be underpinned by rigorous scientific and economic analysis, including attitudinal and behavioural studies to avoid unnecessary over-regulation. In many cases the interests of the community, as represented by regulatory agencies and those of industry overlap.

2. INTRODUCTION: BACKGROUND

Australian Pork Limited (APL) is the national representative body for Australian pig producers. It is a producer-owned, not-for-profit company combining marketing, export development, research and innovation and policy development to assist in securing a profitable and sustainable future for the Australian pork industry. APL works in close association with key industry and government stakeholders.

APL is a unique rural industry service body for the Australian pork industry. The framework for APL was established under the Pig Industry Act 2001². Operating and reporting guidelines are provided for in the Funding Agreement with the Commonwealth of Australia. This forms the basis of APL's operations.

APL's primary funding is derived from statutory pig slaughter levies collected under the Primary Industry (Excise) Levies Act 1999³. The levy amounts to \$2.525 cents per carcass levy at slaughter and is made up of \$1.65 for Marketing activities, \$0.70 cents for Research and Innovation activities, and \$0.175 for the National Residue Survey (NRS)⁴. Additional research-specific funds are also received from the Australian Government under the portfolio of the Federal Minister for Agriculture, Fisheries and Forestry.

In addition to APL's primary audience of levy-paying pork producers, there are a number of other groups who are considered stakeholders of APL including:

- the Australian Government, state and local governments and their agencies;
- processors and exporters;
- wholesalers, distributors and retailers;
- other agricultural industry associations;
- consumers and the community;
- finance and business community;
- APL staff and suppliers;
- industry employees and suppliers; and
- research institutions and providers.

The following objectives for the 2005-2010 Strategic Plan focus on a central strategy to drive up domestic demand for Australian pork, while building the industry's capacity to expand exports and compete successfully against pork imports:

²

[http://www.comlaw.gov.au/ComLaw/Legislation/ActCompilation1.nsf/0/935C1FDED0B51DF1CA256F71005501E2/\\$file/PigIndustry2001.pdf](http://www.comlaw.gov.au/ComLaw/Legislation/ActCompilation1.nsf/0/935C1FDED0B51DF1CA256F71005501E2/$file/PigIndustry2001.pdf)

³[http://www.comlaw.gov.au/ComLaw/Legislation/ActCompilation1.nsf/0/E231CA546E7CC2DBCA25703F001AA557/\\$file/PrimIndExciseLevies1999_WD02.pdf](http://www.comlaw.gov.au/ComLaw/Legislation/ActCompilation1.nsf/0/E231CA546E7CC2DBCA25703F001AA557/$file/PrimIndExciseLevies1999_WD02.pdf)

⁴<http://www.daff.gov.au/agriculture-food/nrs/industry-info/animal>

1. increasing fresh pork demand;
2. increasing carcass value;
3. reducing supply chain costs;
4. contracts and measurements systems;
5. ensuring industry capability; and
6. managing risk.

a. Structure and Regional Distribution of the Industry

There are currently an estimated 1,500 pork producers in Australia with total pig numbers at approximately 2,702,000. APL's members own approximately 85 percent of the Australian pig production. The estimated Gross Value of Production (GVP) for pig production is \$1,008m for the period 2006/07.⁵ Pork represents 2.38% of total Australian farm production.⁶ During 2005-2006, the pig industry had a farmgate value of \$867 million (ABARE).

The Australian pork industry provides a significant positive impact to local, regional, state and national economies through substantial income generation and employment. In 2004, the pork industry directly generated approximately 6,000 full time jobs with a further 35,000 jobs generated indirectly throughout the pork production chain.⁷ The chain was valued at \$2.6 billion in 2005-2006.

b. The Geographical Make-up of the Australian Pork Industry

The pig industry, closely associated with the dairy industry locations in the past, is now largely located in the grain growing regions. Grain growing areas of Australia are found in two relatively narrow inland belts; the eastern Australian grain belt, which stretches through central Queensland, New South Wales, Victoria and South Australia, and the Western Australian grain belt, which is in an area bordered by Geraldton in the north, Albany to the south and Esperance to the east.⁸ The quantity of pork produced in each state is linked to the size of its major grain growing regions but is also influenced by proximity to major

⁵ Australian Bureau of Statistics (2007). Value of Principal Agricultural Commodities Produced: Australia Preliminary - 2005-2006. [Online]. Accessed July 13, 2007: [http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/E6AF653115ACB249CA25730200194FD6/\\$File/75010_2005-06.pdf](http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/E6AF653115ACB249CA25730200194FD6/$File/75010_2005-06.pdf), Vol 7501.0. pp. 5.

⁶ Australian Bureau of Statistics (2007). Value of Principal Agricultural Commodities Produced: Australia Preliminary - 2005-2006. [Online]. Accessed July 13, 2007: [http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/E6AF653115ACB249CA25730200194FD6/\\$File/75010_2005-06.pdf](http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/E6AF653115ACB249CA25730200194FD6/$File/75010_2005-06.pdf), Vol 7501.0. pp. 5.

⁷ http://www.daff.gov.au/_data/assets/pdf_file/0018/18081/2004-01b.pdf, (2004) pp. 20.

⁸ Feed Grains - Future supply and demand in Australia, ABARE E Report 03.21, Prepared for the Grains Research and Development Corporation, Amhed Hafi and Peter Connell, November 2003

population centres. New South Wales produces the most pig meat (30 per cent of Australian production), followed by Queensland (21 per cent), Victoria (19 per cent), South Australia (17 per cent) and Western Australia (12 per cent).⁹

Australian pig production is located Australia-wide reflecting transport costs and also historical factors such as storage, technology, grain producing areas and demand for fresh product by consumers. This spatial distribution has probable implications for realisation of scale economies and specialisation in pig production and processing.

Intensive farming, environmental concerns, and nutritional research showing increased productivity through grain feeds, is largely behind the move toward the grain based diets and the separation from the dairy sector into the grain belts. The number and kind of pig by state are as follows:

i. Table 1: Pig Population and Distribution Throughout Australia¹⁰

	<i>Australia</i>	<i>NSW</i>	<i>VIC</i>	<i>QLD</i>	<i>SA</i>	<i>WA</i>	<i>TAS</i>	<i>NT</i>	<i>ACT</i>
Boars ('000)	12	3	3	3	2	2			NA
Breeding Sows ('000)	302	73	68	73	51	34	2		NA
Gilts intended for breeding ('000)	50	19	10	10	6	4			NA
All other pigs	2,338	565	524	630	367	238	14	2	NA
TOTAL PIGS ('000)	2,538	660	605	715	427	277	16	2	NA

c. Assessment of Regulatory Quality

APL supports the Productivity Commission: Annual Review of Regulatory Burdens on Business - Primary Sector Issues Paper (2007)¹¹ check list for assessing regulatory quality, i.e. that regulations should be:

- I. the minimum necessary to achieve objectives
- II. not unduly prescriptive
- III. accessible, transparent and accountable
- IV. integrated and consistent with other laws

⁹ http://www.abareconomics.com/interactive/ausnz_ag/htm/au_pig.htm

¹⁰ ABS Principal Agricultural Commodities, (2007), 7111.0, 2005-2006. [Online]. Available August 2: 2007: <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/7111.02005-06?OpenDocument>

¹¹ <http://www.pc.gov.au/regulatoryburdens/primarysector/issuespaper/primarysector.pdf>

- v. communicated effectively
- vi. mindful of the compliance burden imposed
- vii. enforceable

APL supports the seven conditions for the assessment of regulatory quality which states that, regulations should be the minimum necessary, are not unduly prescriptive, is accessible, transparent, demonstrates accountability, is integrated and consistent with other laws, is well communicated, is mindful of other compliance burdens and is enforceable.

Regulatory goal clarity, goal consistency and objectivity are the foundation of these seven conditions. Goal clarity implies that regulations are specific, and outline areas to be regulated and the conditions which must be met. Removing regulatory ambiguity should be the focus of this Inquiry. It is in this process of removing ambiguity that goal consistency can be ascertained with the focus on the ability to measure those goals.

An objective goal means that regulation can be assessed impartially and as such promotes goal achievability. Regulation should not become too prescriptive and cause unnecessary cost increases in the short to medium, unless there are sound reasons for implementing them. It is in this sense that regulation remains realistic and reflects the capacity of industry to meet ongoing regulations.

Further, if a community service function, such as animal welfare is being met by regulation, then the community should bear that cost. If the regulation can value-add to the industry, or is a service to the industry, it then can be legitimately cost recovered.

The market failure rationale is that an unregulated industry will necessarily cause external costs as well as risks incurred by the wider community which cannot be accounted for by the unregulated industry.¹² These expected community wide costs will have to be recovered from the entire industry. These are areas which could be reviewed by the Australian Government authorities.

It is important to note that being a provider of industry services is incompatible with the regulatory features featuring lack of contestability, public sector cost levels and staffing requirements, and government control over cost recovery

¹² Market failure: the result when the price of goods and services do not reflect the costs of producing and consuming those goods and services. For environmental externalities, market failure occurs when the price of goods and services does not reflect full societal costs, which are conventional financial costs including environmental externalities. Some initiatives that address market failures include the establishment of the National Residue Survey and environmental regulations such as NPI reporting.

charges. It is distinct from community services. Regulations should be explicit about the mix of community and industry service, and that stated mix should be reflected in deciding who meets the cost of administering the regulation. The industry should have a say in how costs are structured, i.e. greater transparency, so as to maintain industry efficiency and viability.

3. COMMENTS ON AND IMPROVEMENTS TO REGULATION

a. Overview

A broad assessment of the regulatory environment in Australia suggests that it discourages industry growth. In 1999, Dr Sandra Welsman carried out a review of the pigmeat regulatory environment, during which she conducted interviews with industry members. This included research from a wide range of materials from formal reports to media debate. While regulation was considered essential, many industry participants found that it was costly and time consuming. It had deterred the construction of new facilities throughout parts of the total pork industry chain¹³. Approximately 25 percent of management time was found to be spent on environmental and QA matters alone. Furthermore, most Australian regulators have recovered the full costs of their activities from industry participants who they regulate, inspect, audit and advise¹⁴.

When these regulatory guidelines change, they create uncertainties in the regulatory environment that also inhibit investment by pig producers in new infrastructure and expansion. It has in turn has also reduced a producer's ability to plan and risk manage for their enterprises' operations.

b. State and Federal Relations

Disorganised regulation is symptomatic of State and Federal relations that are integral to and affect the pig industry. APL recognises that the critical relationship is an inefficient mechanism for enacting and enforcing consistent legislation. State and Federal relations have impacted upon:

- i. The Model Code of Practice for the Welfare of Animals - Pigs
- ii. OH and S/Worker's Compensation regulation
- iii. Food industry regulation including PigPass NVD
- iv. Ethanol regulation

i) The Model Code of Practice for the Welfare of Animals - Pigs

The Primary Industries Ministerial Council (PIMC) approved the new Model Code of Practice for the Welfare of Animals - Pigs in April 2007. Though the

¹³ Department of Agriculture, Fisheries and Forestry. (1999). Review of Regulatory Environment. [Online]. Last Accessed: July 30, 2007: <http://www.daff.gov.au/agriculture-food/meat-wool-dairy/ilg/industries/pork/npidp/outcomes#regulatory>

¹⁴ Department of Agriculture, Fisheries and Forestry. (1999). Review of Regulatory Environment. [Online]. Last Accessed: July 30, 2007: <http://www.daff.gov.au/agriculture-food/meat-wool-dairy/ilg/industries/pork/npidp/outcomes#regulatory>

Commonwealth has developed the new Code, it is the responsibility of States to legislate. As at August 2007, little progress has been made on the establishment of the Implementation Working Group (IWG), the body approved by the PIMC to help in the implementation of the Code at state level.

The Code took three years to develop before endorsement by PIMC. With the current requirement that Codes be reviewed every five years, the actual implementation of the Code will only just be completed when the next review is due. Furthermore, there have been mishandling of drafts and changes to standards without consultation add the cost to producers and the industry as a whole through lost time, resources and levy payments which funds are redirected away from other priorities.

Other fundamental planning problems are reflected in other industry analyses. A Western Research Institute (WRI) study into the Socio-Economic Impacts of the Australian Pork Industry study (2002)¹⁵ identified approval costs, developmental approval, and ambiguous interpretation of regulations as detrimental to the pork industry. The WRI study also highlighted the lack of uniformity in the application of legislation nationally and within states at regional and local levels as a regulatory burden.

At a state level, the Welsman report¹⁶ noted that new piggeries are being built in South Australia and not in New South Wales because of the different regulatory stances of the respective governments.

Pork producer investment through APL including commissioning of surveys, financial analysis and modelling to provide input into the development of a national Code which is then implemented and regulated at a state level has not been sound. Delays have been costly to the pork industry in terms of our competitiveness and sustainability and again create uncertainty in the investment environment. **Efficient mechanisms must be in place to allow timely implementation of certain laws that would ensure investment confidence. With limited time in which the industry can adapt to these changes, it is imperative that legislation can be implemented consistently and harmonised across states.**

¹⁵ Western Research Institute (20072) 'Socio-Economic Impacts of the Australian Pork Industry': 17 December, 2002

¹⁶ Department of Agriculture, Fisheries and Forestry. (1999). Review of Regulatory Environment. [Online]. Last Accessed: July 30, 2007: <http://www.daff.gov.au/agriculture-food/meat-wool-dairy/ilg/industries/pork/npidp/outcomes#regulatory>

This creates additional costs to producers both through their investment via levies paid to APL and through their business operations made by their national representative body, APL. These regulatory problems should be assessed so as to ensure smooth integration and consistency with other laws. This places a strong responsibility on APL to be technically equipped and resourced to be effective partners with State and Federal governments.

ii) OH and S and Worker's Compensation regulation

The statutory requirements by state agencies for employers to carry workers compensation obligations linked to assessed industry Occupational Health and Safety risk carry with them substantial costs. The Welsman Report¹⁷ noted that in NSW and Queensland, insurance costs at that time were over 10% of wage costs. However, in other states such as Victoria the charges were lower. These estimates were consistent with a 2003 review of OH and S regulatory impacts on the cattle feedlot industry carried out by Meat and Livestock Australia (MLA).

The insurance levels are typically linked to industry categories, and from the recorded accident performance of those categories, rates are derived. There have been reviews and reforms in various agencies in recent years, as well as a new national provision to be made available to national businesses through a national government scheme.

OH and S regulations should provide for strong incentives for individual businesses to improve their accident performance. Industry QA systems that impact on accident risk should be evaluated by the relevant agency so that if the disciplines involved a lower assessed risk, participants can be rewarded accordingly by rate discounts.

iii) Food industry regulation including PigPass NVD

The different roles and focus of state departments of agriculture and food safety regulators have contributed to poor industry coordination. The issue of food industry regulation across governments should be given attention through Council of Australian Government (COAG) mechanisms. This is an area where close industry and government collaboration to deliver shared goals is ideal.

However, actual delivery of shared goals has been difficult. APL notes the difficulty experienced with the voluntary PigPass NVD program in coordinating

¹⁷ Department of Agriculture, Fisheries and Forestry. (1999). Review of Regulatory Environment. [Online]. Last Accessed: July 30, 2007: <http://www.daff.gov.au/agriculture-food/meat-wool-dairy/ilg/industries/pork/npidp/outcomes#regulatory>

the process of securing multi-agency involvement and support. **It is essential that any arrangement be implemented as widely as possible for regulatory consistency and cooperation.**

iv) Ethanol Regulation

Feed grain costs are a key competitive disadvantage for Australian pork producers. With biofuel production increasing with consumer interest and uptake via ethanol content mandates and government encouragement to industry, demand for feedgrain for human consumption and livestock production will increase grain prices.

State governments have separately taken steps to apply state based ethanol mandates additional to a raft of other regulations (e.g. in NSW requiring government cars to use biofuels) that effectively advantage ethanol processors over other grain dependent industries.

The NSW government in 2007 enacted the Biofuel Bill, mandating a 2% ethanol blend in all petrol sold in NSW.¹⁸ It has also stated its intention of applying a 10% mandate by 2011, with Queensland promising to apply a 5% mandate by 2010. The Victorian government has now set up an inquiry to look at mandating ethanol content in Victoria.

There are currently, (or planning process), a raft of Australian and state government interventions in the biofuels market that are both inconsistent across governments, and any changes should be made in consultation to complementary industries.

c. Regulatory Impact Statements

In addition to State and Federal relations, **APL highlights the need for improvement into future regulatory impact statements (RIS).** The RIS takes into account the costs associated with enacting new laws or changing regulations. They are a significant part of developing for example, the national Model Codes of Practice for the Welfare of Animals and the Australian Standards and Guidelines for the Welfare of Animals – The Land Transport of Livestock (currently in development in 2007). APL requested that the RIS look at not only the specific impact of the regulation, but that impact in the context of the total weight of regulations already impacting on the industry. With this in mind, deterrence of innovation and investment due to increased compliance responsibilities, as well as the capacity of the enterprise to manage those changes

¹⁸ <http://www.parliament.nsw.gov.au/prod/PARLMENT/hansArt.nsf/V3Key/LC20070509089>

should be assessed. APL notes that **although The Council of Australian Governments (COAG) agreed processes through which regulatory impact statements (RIS) are carried out are sound in general terms, are not always adhered to (e.g. ethanol industry regulation).**

d. Environmental Requirements

The Western Research Institute (WRI)¹⁹ study highlighted that producers face increasing barriers to piggery developments due to changing environmental requirements. Rural life-style residents are driving local regulations often without adequate consultation with the pig industry or consideration of its needs or regional economic benefits. Consequently, the regulations often include misconceptions and technical errors.

The WRI study also identified that the opportunity cost for each months delay in the construction of a new intensive piggery operating with 1,800 sows resulted in lost pig sales of \$450,000 per month.²⁰

The National Pollution Inventory (NPI) Industry Reporting²¹ has also impacted on producers. The first Piggery Emission Estimation Manual produced in 1999, was too complex. One large integrated producer had to complete up to 40 Ammonia Emission Estimation forms resulting in considerable expense and lost time. The same integrated producer also had to determine the Liquid Petroleum Gas (LPG) used in farm vehicles - a measurement at the time which had never been conducted. Calculating measurements requires expertise and resources for which can also result in lost time. To counteract these problems, APL assisted the Australian Government in preparing a revised version released in 2007.²²

¹⁹ Western Research Institute (2002) 'Socio-Economic Impacts of the Australian Pork Industry': 17 December, 2002 *cited in* Australian Pork Limited (2004). APL Submission 2: Productivity Commission Australian Pig Meat Industry Public Inquiry [Online]. Last Updated: July 31, 2007: <http://www.australianpork.com.au/media/S%20-%20second%20pc%20submission%20-%20FINAL%20-%20CONFIDENTIAL.pdf>

²⁰ Western Research Institute (2002) 'Socio-Economic Impacts of the Australian Pork Industry': 17 December, 2002 *cited in* Australian Pork Limited (2004). APL Submission 2: Productivity Commission Australian Pig Meat Industry Public Inquiry [Online]. Last Updated: July 31, 2007: <http://www.australianpork.com.au/media/S%20-%20second%20pc%20submission%20-%20FINAL%20-%20CONFIDENTIAL.pdf>

²¹ Department of Environment and Water Resources. (2007). National Pollution Inventory [Online]. Last Accessed: July 30, 2007: <http://www.npi.gov.au/>

²² Department of Environment and Water Resources. (2007). Intensive livestock - pig farming - Emission estimation technique manual - Version 2.0. Australian Government. [Online]. Last Accessed: July 31, 2007: http://www.npi.gov.au/handbooks/approved_handbooks/pork.html

Further the NPI website could be interpreted as a breach of privacy, listing the street address of production sites and a searchable web site. APL has deep concerns with privacy issues associated with public access to electronic data, which includes spatial addresses, names and contact details. Animal activists have in the past violated strict biosecurity arrangements on several pig farms and this publicly available information poses a genuine threat not only to biosecurity but to the whole of the Australian pork industry and national agribusiness. **Public access to these private enterprises will actively facilitate animal activism.**

Initially the NEPC, supported by the Commonwealth, proposed the implementation of the purpose-designed single national greenhouse reporting system. **APL has concerns about the practicality of implementing an interim reporting system which involves the inclusion of greenhouse emission reporting into the NPI system.** The Australian pork industry has already made considerable investments in time and effort toward the Commonwealth's preferred option. This would be an unnecessary duplication of legislation.

If such an 'interim' system were to be implemented, a consultation process with industry is essential. The proposed timeframes do not allow for such a process to take place and given the restraints on time and resources are tight this may be expended on a system which may never be used. Further, should this interim system be introduced a considerable investment will be required by industry, and the government will be required to communicate the new, if temporary system.

Finally, there is no surety that an interim system will be compatible with or even similar to the proposed national system. **The proposed interim reporting system poses an unnecessary and unfair burden on the pig industry.**

e. Changes to the National Residue Survey

Testing of samples for residues under the National Residue Survey (NRS) costs Australian pork producers \$430,000²³ annually. The process is funded by a levy at slaughter of 17.5 cents per carcass. This regulatory system which is managed by the Department of Agriculture, Fisheries and Forestry (DAFF), continues to change the requirements and costs for testing. **Any changes to NRS program must be made in consideration to the protection of Australia's export markets and with regard to the sustainability of the industry in Australia.**

²³ Australian Pork Limited (2004). Productivity Commission Submission No. 2 into the Productivity Commission Inquiry Report: Australian Pigmeat Industry. [Online]. Last Accessed: July 31, 2007: <http://www.australianpork.com.au/media/S%20-%20second%20pc%20submission%20-%20FINAL%20-%20CONFIDENTIAL.pdf>

f. Food Labelling Issues

On emerging labelling issues, the absence of an effective regulatory system relating to 'free-range' and 'organic' status is of concern. Though recognition of Australia's own organic standards under the authority of the Australian Quarantine and Inspection Service (AQIS) has become the legislated standard for food produce for exports, consumer groups have not been satisfied with its standards and have invested additional resources into research and development of their own welfare-oriented production methods.

The definition of 'free range' in particular has prompted animal welfare organisations such as the RSPCA, Humane Society International (HSI) and associations such as Free Range Pork Farmers Association (FREPA) to develop and promote their own variation of welfare-oriented production standards. Supermarket chains Woolworths and Coles have also promoted their own free-range pork products. These variations in the definition of 'free-range' can confuse consumers and demonstrate the extra resources the pig industry has employed by having developed independent free-range standards.

Australian standards relating to 'organic meat production' by regulatory bodies has been scant. Food Standards Australia New Zealand (FSANZ)²⁴ has no published definitions or standards on organic food production. Standards Australia indicated in 2007 that they will develop a framework for the organic production of meat, from which, when completed, the Primary Industries Ministerial Council (PIMC) intends to regulate the industry²⁵. The Australian Competition and Consumer Commission (ACCC) has so far only indicated its commitment to ensure truthfulness in organic production claims²⁶.

²⁴ Biological Farmers of Australia (2006). Regulation of Organic Foods in Australia and New Zealand: Incorporating Management of an Organic Standard. August 24, 2006. [Online]. Last Accessed: July 31, 2007:
http://www.bfa.com.au/_files/Regulation%20of%20Organic%20Foods%20in%20Australia%20and%20NZ.pdf

²⁵ Burke, K. (2006) 'Food Labelling Plan Spells an End to Free-range-for-all', *Sydney Morning Herald*,
24 November 2006: <http://www.smh.com.au/news/national/food-labelling-plan-spells-an-end-to-freerangefreeforall/2006/11/23/1163871546476.html>

²⁶ Burke, K. (2006) 'Food Labelling Plan Spells an End to Free-range-for-all', *Sydney Morning Herald*,
24 November 2006: <http://www.smh.com.au/news/national/food-labelling-plan-spells-an-end-to-freerangefreeforall/2006/11/23/1163871546476.html>

Uncertainty in organic food production standards, including the definition of 'organic' and 'free-range' which do not satisfy consumer wants is not conducive to future investment in the industry for both domestic and export markets. **Addressing food labelling concerns must be the focus of the Australian government in years to come. APL urges that this regulatory impost be subject to Commission review as soon as possible.**

g. Transport Regulation

Coastal shipping controls which impact on the grain dependent livestock industries in eastern Australia have an adverse effect on costs. The grain dependent livestock industries have long been concerned at the expensive costs associated with coastal shipping, particularly those arising from cabotage regulations which add costs due to permit, cleaning and other quarantine requirements.

Current coastal shipping controls require vessels plying this trade to be licensed. There is although a provision for permits to be issued to unlicensed vessels under stringent temporary conditions.

One of these conditions requires that Australian award conditions must be paid. These licensing arrangements are unsuitable for the grains industry. The costs incurred by the grains industry are passed to the intensive livestock sector, more so during drought periods. During recent droughts, it was more costly to ship grain from WA ports to the eastern seaboard than to do so from the major US grain ports.

Coastal navigation legislation should be reviewed by the Commission. Red meat organisations have submitted analysis by Dr Welsman about the difficulties caused by current land transport regulations affecting grain haulage.

h. Import and Export Protocols

Restrictions and the 'phasing out' of some antibiotics have forced the industry to investigate new strategies (in terms of vaccines, pro-biotics, and general management) or risk industry inefficiency. **Speeding up the registration of imported vaccines by the Australian Pesticides and Veterinary Medicines Authority (APVMA)²⁷ is a priority as long approval times impact on the efficiency of the industry.**

²⁷ Australian Pork Limited (2004). APL Submission 2: Productivity Commission Australian Pigmeat Industry Public Inquiry. [Online]. Last Accessed: July 31, 2007:

Similar constraints are found in the export market for wheat. By commanding 80% of wheat exports, the Australian Wheat Board International (AWBI) is the price maker on wheat supplies through the single wheat desk arrangement. The AWB also markets and trades other grains including barley, sorghum and oilseeds. During times of shortage, which is typical of drought conditions, Australian domestic grain prices have risen above the world price average. Taking advantage of the domestic shortage, the AWB sources additional supplies destined for the domestic market to sell into higher priced sectors of world grain markets. Though favourable to Australian grain growers in terms of mitigating decreased yields with increased prices, it is unfavourable to the intensive livestock industries. It exposes the pig industry to additional cost impacts. Quarantine restrictions that limit grain imports create a situation where imported grain prices are higher than the export price.

APL believes that during times of grain shortage a single wheat desk represents a significant regulatory burden and cost to grain dependent livestock producers. Australian pork producers in 2005-2006 and 2006-2007 levels used approximately 14 per cent of all feedgrains produced in Australia²⁸. It is a policy that does not recognise appropriate adjustment measures that ensures the growth and viability of grain user industries during drought cycles.

i. Ethanol

Australian Government subsidies toward the ethanol industry distort regional feedstuff markets. This has shown to be the case in the USA where feed prices have doubled.²⁹ APL's second submission to the Productivity Commission outlined how the Australian Government's subsidised development of the fuel ethanol industry sourced from feed grains would impact on existing livestock feeding industries.³⁰

<http://www.apl.au.com/media/S%20-%20second%20pc%20submission%20-%20FINAL%20-%20CONFIDENTIAL.pdf>, pp. 12.

²⁸ Hirad, S.H., Hafi, A., Lawrance, L., Brown, A., and Shaw, I., (2007) Feedgrains: Regional Demand and Supply in Australia: Abare Report to Client: April 2007, Australian Bureau of Agricultural and Resource Economics [Online]. Last Accessed: August 1, 2007:

http://www.daff.gov.au/_data/assets/pdf_file/0009/210141/abare-feedgrains-report.pdf, pp.14.

²⁹ Neutkens, D. (2007). PorkNet Daily E-Newsletter. MetaFarms, Incorporated. www.porknet.com. April 1, 2007.

³⁰ Australian Pork Limited (2004). APL Submission 2: Productivity Commission Australian Pigmeat Industry Public Inquiry. [Online]. Last Accessed: July 31, 2007:

<http://www.apl.au.com/media/S%20-%20second%20pc%20submission%20-%20FINAL%20-%20CONFIDENTIAL.pdf>

\$10 million has been allocated per ethanol plant established, as well as start up assistance for individual projects and test marketing of ethanol by the Australian Government. A report by Macarthur Agribusiness, Review Options to Reduce Feedstuff Supply Variability in Australia (November 2003) There is increasing demand for feedgrain, by intensive livestock producers. This increased demand coincides with a relatively slower increase in Australian feedgrain production³¹.

Currently ethanol manufactured in Australia receives excise rebates which are scheduled to phase out after 2011. These rebates are supplemented by plant start up grants that have been provided to some biofuel plants. Following recent reviews the Australian government has reiterated its intention not to change those policy settings, although there is continuing political pressure to legislate for a national mandated level of ethanol content in motor fuels.

Despite a large body of reputable analysis that has shown that grain based ethanol production is not viable on an unsubsidised basis in Australia, and that current and potential subsidies disadvantage the pork and other grain end use industries. The recent report of the Prime Minister's Biofuels Taskforce³² concluded that grain based ethanol production was not viable in Australia for the foreseeable future. It concluded that an assisted biofuels industry may increase grain prices to the financial detriment to some livestock industries. This conclusion is consistent with repeated ABARE analyses, and a report on subsidised ethanol impacts on livestock industries carried out by the Centre of International Economics³³.

These interventions in the biofuels industry are at serious odds with the regulatory principles agreed by COAG, and inconsistent with the Commission scrutiny that was recently required of the pork industry. Financial incentives to stimulate biofuels should not come at a significant cost to intensive livestock producers and that any move should be in consultation with grain dependent producers. These financial incentives mean increased competition for intensive livestock producers in an environment of increasingly limited supplies of grain.

j. Wheat Export Single Desk

The damaging effects of the wheat export single desk on pork industry competitiveness are highlighted in submissions to the 2005 Productivity

³¹ [Yates, W.J. and Coombs, R., \(2003\). Review Options to Reduce Feedstuff Supply Variability in Australia – Volume 1: Main Report. Macarthur Agribusiness and Rural Action. \[Online\]. Last Accessed: July 31, 2007: http://www.apl.au.com/media/Main%20Report%2022Dec2003%20-%20FINAL%20-%20Feasibility%20studyL.pdf](http://www.apl.au.com/media/Main%20Report%2022Dec2003%20-%20FINAL%20-%20Feasibility%20studyL.pdf)

³² http://www.grainscouncil.com/Policy/Biofuels/05_Sept_13_PM_Biofuel_Report.pdf

³³ http://www.thecie.com.au/publications/CIE-Ethanol_report.pdf

Commission inquiry into the Pigmear industry.³⁴ Our industry is expected to compete with often subsidised overseas producers while being burdened with a regulated wheat trade. Grain is a significant cost input, representing 55%-65% of pig farming production costs.³⁵

APL, in collaboration with some other intensive livestock industries, recently commissioned a report by ACIL-Tasman on the interactions between the single desk and the competitiveness of intensive livestock industries. The report concluded that:

- The grain dependent intensive animal industries in Australia require profitable and productive grain producers to ensure that a consistent supply of high quality feed grains is available on the domestic market.
- **Removing the wheat export monopoly - the 'single desk' - would lead to savings of about \$15.00 per tonne in marketing costs, of which \$9.00 would flow from abolishing the service agreement between AWBL and AWBI, and at least \$6.00 from identified efficiencies from removing the monopoly exporter's effective control of bulk handling, transport and storage.** Those savings would be available for sharing between growers and domestic users, the balance depending on prevailing elasticity of supply and demand at the time of transaction.
- Intensive animal production industries compete in highly competitive international markets and do not have the capacity to pass higher production costs onto consumers. To remain competitive in international markets, Australian intensive animal industries need to be able to access their major input from an efficient market with transparent price signals. The significant linkage between the wheat export pool price and the prevailing domestic wheat and other substitutable feed grain prices means that **domestic users must have access to feed grain at the same relative price as their competitors.**
- The 2006-07 drought year provides demonstrates the rapid increase in local prices in times of a domestic grain production short fall. The price of wheat used for livestock feeding increased by 87%, from an average of A\$176 per tonne in January 2006 to an average of A\$329 per tonne in November 2006. However, domestic grain buyers are not able to protect themselves sufficiently from rising stock feed prices because of inadequate risk management instruments based on the local market. The wheat export

³⁴ Productivity Commission 2005, *Australian Pigmear Industry*, Report no. 35, Melbourne. [Online]. Last Accessed: July 31, 2007:

<http://www.pc.gov.au/inquiry/pigmear/finalreport/pigmear.pdf>

³⁵ Australian Pork Limited. (2006). *Australian Pig Annual 2005*. [Online]. Last Accessed: July 31, 2007: <http://www.australianpork.com.au/media/Australian%20Pig%20Annual%2Epdf>

marketing arrangements stifle the development of a sophisticated secondary market in Australia upon which these risk management tools are based.

- In contrast, international competitors of Australian intensive animal industries do have access to sophisticated and liquid secondary grain markets.
- Therefore any advantages to domestic stock feed users of wheat during times of exportable surplus from the current marketing arrangements are more than offset by the losses arising from not being able to manage risk in developed secondary markets in the same manner as their competitors.
- This disadvantage – and the consequent costs of not being able to transfer risk adequately – is likely to continue without the many buyers and sellers of wheat, both export and domestic operating in open competition, which are necessary for efficient physical spot and forward markets and as well as viable and efficient secondary markets

k. Supermarket Sector Dominance

Trend lines in general for retail prices have increased on an ongoing basis, with prices received by producers remaining relatively flat. Australia is dominated by two major retailers in the supermarket sector and as a result, supermarkets tend to be price makers which in turn can affect price, product specifications, production methods and supply volumes and can promote anti-competitive behaviour. This discrepancy has been confirmed by the Department of Agriculture, Fisheries and Forestry (DAFF) has noted in its Price Determination in the Australian Food Industry 2004 report.

APL believes that there is an opportunity to introduce a mandatory Horticulture Code of Conduct alongside legislated powers by the Australian Competition and Consumer Commission (ACCC). The voluntary Retail Grocery Industry Code of Conduct³⁶ introduced in 2000 is also a way in which the regulatory conditions can be managed.

³⁶http://www.industry.gov.au/assets/documents/itrinternet/Produce_grocery_industry_COC_200520050506092049.pdf

4. CONCLUSION

Though regulatory practice in Australia is well developed, there are opportunities for greater improvement. Australian Pork Limited has outlined where and how co-regulation between government and industry can satisfy industry needs, as well as those required by government.

Regulation should be based on good science, rigorous analysis, and consultation through regulatory impact statements across government agencies should be sound. An emphasis on practical industry involvement via government monitored self regulation, or co-regulation, are safeguards that ensure over-regulation is avoided. APL supports regulation, but believes that over-regulation can generate greater costs and risks than can be individually recovered. Unlike business and industry, government alone does not compete in the international market. Government regulators must demonstrate an understanding that they are not the stewards of business and industry. This prevents a regulatory 'creep' with over regulation in the absence of the cost disciplines imposed by market signals.

Evaluating policies and programs, particularly those that receive government funding, is a necessary discipline. Evaluations can facilitate improved program management, accountability, decision making and resource allocation, particularly for the different scales of enterprise. These evaluations would also measure how regulation would interact with existing legislation and their impact on industry innovation.

Maintaining sound food safety and animal health protocols remain Australia's competitive advantage in maintaining our world status as a quality producer of pork foodstuffs.

APL believes on the basis of our assessments that entirely commercial requirements should be left to industry or by a co-regulation arrangement with government. An economy-wide rule setting and enforcement, such as national taxation policies, is legitimately the province of government; no individual or company is likely to voluntarily pay the full amount of taxes on an ongoing basis for consolidated revenue purposes.

Without effective legislation, industry has to invest more resources than it needs to in order to address growing consumer awareness of animal welfare.

New levy and subsidy arrangements for complementary industries such as grains need to be assessed so that the pig industry does not come to a significant disadvantage.

Adverse affects on the pork industry also arise from the operations of the single desk for wheat exports, and State and Federal government interventions in the ethanol industry which distort the Australian feed grain market.

There is an increasing tendency for regulatory agencies to be fully cost recovered from industry without associated rigour and transparency as to whether industry, or community, services are being delivered. The industry affected should have a strong say in how those charges are incurred and set, and the potential for contestability investigated.

All regulation must demonstrate flexibility and awareness of changing macroeconomic conditions, as well as encourage a fair market, particularly for pig farmers. So as to maintain accessibility, transparency and accountability to industry stakeholders, it is critical that these regulatory policies be made with adequate public scrutiny. Public scrutiny should also help future regulators ascertain a sound understanding of the compliance burdens posed.

Regulatory changes should be made transparent with greater industry involvement, and lack of clarity must be addressed as a priority. Where regulation of specific industry activity is intended, the aims of that regulation should be clearly explained, and the scope for industry involvement explored.

This government should ensure that where state government regulation is planned, harmonisation and consistency across states achieved for investment planning and capital mobility. These are critical issues which should be reviewed as they can improve industry viability and ensure pig industry growth.