Key points

- Australia's pig producing and processing sectors continue to experience significant structural change.
- Over the past six years, Australia has become increasingly integrated into world pigmeat markets, with both exports and imports generally rising strongly.
- From 1999 to 2002 most pig producers were profitable. Between mid-2002 and late 2003, however, many pig producers made financial losses and the market shares for Australian pigmeat products fell.
- Declining competitiveness between mid-2002 and late 2003 was due to lower pig prices in competitor countries, high feed costs due to drought and an appreciating Australian dollar. Profitability improved during 2004, with some pigmeat businesses reporting profits, but imports continued to rise and exports fell.
- Australia's main competitive advantages internationally are its 'clean, green' image, disease free status and closeness to Asian markets. Australia's main disadvantages are high feed costs and low economies of scale.
- In the long run, the international competitiveness of pigmeat businesses will be driven by sustainable cost advantages and/or product differentiation.
- Imports of pigmeat into Australia do not benefit significantly from subsidies. Government assistance provided to pigmeat producers in Denmark and the United States is low. Assistance to Australian pigmeat producers is comparable to these countries. Somewhat more assistance (still low) is provided to pigmeat producers in Canada.
- Governments could reduce some impediments to industry performance and to competitiveness by, for example, seeking reductions in overseas trade barriers and reviewing the impact of single-desk grain exporting arrangements in Australia.
  – Such actions are unlikely, however, to make a large improvement to the competitiveness of pigmeat businesses or insulate the industry from such short term factors as drought and fluctuating exchange rates.
- Any increase in trade restrictions on imported frozen uncooked pigmeat would impose costs on pigmeat consumers, retailers and manufacturers, and may not be in the long term interests of pig producers or primary processors.
- General government assistance is available to help Australian pigmeat businesses to adjust and further assistance is not warranted at this time.

Findings

Australian markets for pigs and pigmeat

FINDING 2.1

Australia's pig production and primary processing sectors continue to experience significant structural change, as in many other countries. Pigmeat production has increased, while the number of pig producers has declined substantially. The primary processing sector has also become more concentrated, with many abattoirs becoming more specialised.

FINDING 2.2

Australia has become increasingly integrated into the world pigmeat market over the past six years, with pigmeat imports rising from $40 million to $219 million, and exports increasing from $56 million to $195 million.

Industry competitiveness

FINDING 3.1

The competitiveness of a business can be difficult to measure, although profitability and market share are useful indicators. Many Australian pig producers made substantial losses during 2002-03, following three years of above average profits. Profitability improved for many pig producers in 2004. The share of imported pigmeat used by secondary processors increased between 2002 and 2004. Exports of pigmeat declined during that period.

External factors affecting competitiveness

FINDING 4.1

The competitiveness of Australian pig producers in the domestic market and some international markets declined between mid-2002 and the end of 2003, largely reflecting movements in exogenous factors such as exchange rates and feed prices. There are mixed signals on recovery. Both exchange rates and feed prices moved favourably during 2004, enabling some recovery of profitability, but imports continued to grow while exports declined. Such fluctuations in competitiveness are likely to continue.

FINDING 4.2

Assistance to Canadian and European Union grain producers has not resulted in a significant reduction in prices paid for grain by Canadian and Danish pigmeat producers.

FINDING 4.3

Imports of pigmeat into Australia do not benefit significantly from foreign subsidies. Government assistance provided to pigmeat producers in Denmark and the United States is low. Somewhat more assistance (but still low) is provided to pigmeat producers in Canada.

FINDING 4.4

Government assistance provided to Australian pigmeat producers is also low. The types of assistance are similar to those available to producers in Denmark and the United States.

Internal factors affecting competitiveness

FINDING 5.1

Continuing improvements in practices internal to a pigmeat business are important to maintain long run competitiveness with foreign competitors. In the short run, however, these internal factors are unlikely to offset such influences as large unexpected movements in feed grain prices and exchange rates.

FINDING 5.2

While increased specialisation and capital intensity have allowed some pig producers to achieve economies of size and higher returns, the consequences of large unanticipated variations in prices of outputs and inputs may be greater than for less specialised producers.

Government and industry programs in Australia

FINDING 6.1

The benefits and costs of Australian Pork Limited’s research and development programs do not appear to be routinely evaluated and publicly reported. Such assessments are critical to monitor the effectiveness with which research and development programs are managed.

FINDING 6.2

Businesses in the pigmeat industry have accessed generally available programs, and pigmeat-specific programs, to invest in research and development, market development, and processing facilities. There has been little evaluation of the net benefits generated by individual programs.

Potential impediments to improving performance and competitiveness

FINDING 7.1

There is an ongoing role for the Australian Government to press for reduced overseas barriers to Australian pigmeat exports, as part of its efforts within the current Doha Round and in any prospective negotiations on preferential trade arrangements.

FINDING 7.2

Single-desk marketing arrangements for domestic and export sales of Australian grain have the potential to raise domestic prices for grain, particularly during drought, reducing the competitiveness of all domestic grain-using industries (including the pigmeat industry).

FINDING 7.3

Government support to encourage the expansion of the ethanol industry is likely to raise domestic prices for feed grain, adversely affecting the pigmeat and other intensive livestock industries. The impact will depend on the extent to which feed grain is used for ethanol production, and the size of the ethanol industry.

FINDING 7.4

Governments should ensure any regulatory requirements — such as those related to quarantine, planning and development, animal welfare and environmental impacts — are the minimum necessary to achieve their objectives. However, this is unlikely to greatly alter the competitiveness of pigmeat businesses. The benefits are unlikely to be large, and could be slow to emerge. More significant factors affecting short-run competitiveness are forces such as drought and fluctuating exchange rates.

Measures to improve industry competitiveness

FINDING 8.1

The Australian pigmeat industry and pigmeat businesses can pursue a range of measures to improve business competitiveness. The relative merits of any such measures are best judged by individual pig producers or processors, or by the industry as a whole.

FINDING 8.2

Given the potential impacts of single-desk grain export arrangements on domestic grain-using industries, the Australian and relevant State governments should regularly review such arrangements to ensure their benefits outweigh the costs for the community as a whole.

FINDING 8.3

Given the potential costs of government support for the ethanol industry, the Australian Government should regularly review that support to ensure the benefits outweigh the costs for the community as a whole.

FINDING 8.4

While additional restrictions on pigmeat imports into Australia may provide short term benefits to pig producers, they would adversely affect Australian pigmeat consumers, retailers and manufacturers. They could also discourage or delay ongoing restructuring and would fail to target those in greatest need of assistance.

FINDING 8.5

Additional adjustment assistance specific to the pigmeat industry is not warranted, but governments should regularly review generally available agricultural and business assistance programs and existing assistance targeted at the pigmeat industry to ensure their appropriateness, efficiency and effectiveness.