



19 January 2009

Dr. John Carter
Secretary
Foreign Affairs Sub-committee
Joint Standing Committee on Foreign Affairs, Defence and Trade
PO Box 6021
House of Representatives
Parliament House
Canberra ACT 2600

Dear John,

R.E. Inquiry into Australia's Relationship with ASEAN

Australian Pork Limited (APL) thanks the Joint Standing Committee on Foreign Affairs, Defence and Trade (JSCFADT) for the opportunity to appear before them and to provide additional information in relation to the questions raised at the Joint Standing Committee hearing. The following provides further information in relation to *Questions without Notice* regarding:

1. Current economic environment
2. Market Price Support (MPS) mechanisms and pork production subsidies
3. Competition within the Association of South East Asian Nations (ASEAN)
4. Australian import protocols
5. Disease management in the ASEAN
6. Further market information on Singapore

1. Current economic environment

Limited credit availability, volatile currency exchange rates and global economic uncertainty are hindering US pork exports, our major competitor in Asian markets such as Japan and Hong Kong. US exports to China and Korea have also slowed towards the end of 2008. The ongoing uncertainty may affect demand in our largest target markets of Singapore, Japan and New Zealand, all of which are in recession.

Tariff and non-tariff barrier liberalisation is critical in ensuring long term growth and profitability for Australian pig producers throughout the business cycle.

The Australian pork industry does not compete on cost but as a niche product i.e. not as a commodity product. The APL strategic plan focuses on export development and is working with its Market Development Committee (MDC) comprising commercial companies to target and grow new markets to ensure that over the long term, regardless of adverse economic circumstances that the Australian pork industry can continue to supply these valuable markets.

There is considerable regulatory uncertainty concerning the greenhouse gas emissions of intensive livestock production systems. For agriculture to be included in the Carbon Pollution Reduction Scheme (CPRS) from 2015, substantial government funding assistance is required to target existing information gaps across agriculture. Failure to create a comprehensive understanding of the impact of climate change on agriculture and the role of the various sectors (such as the pork industry) in particular could lead to perverse outcomes through implementation of the CPRS. It will put at risk the long-term sustainability of Australia's food production and related export industries.

2. Market Price Support (MPS)

The Producer Support Estimate (PSE), the Organisation for Economic Co-operation and Development (OECD's) official measure of government support to agriculture, is considered a better measure of producer support, as it is the only available source of internationally comparable information on support levels in agriculture.

However, previous research by APL has indicated that the PSE almost certainly understates the level of support given to pork producers in countries such as Canada, Denmark and the United States as the measure of support does not adequately cover subsidies at the sub-national level. OECD officials acknowledge this deficiency.

The PSE for Denmark is currently at 23 percent. Support for US pig meat is likely to be at least 10 percent (i.e. 10 percent of farm gate revenue comes from government support programs) and could be as high as 22 percent if property tax concessions are included. Canada's PSE is also likely to be higher than that indicated by the PSE of 8 percent. Comparatively, Australia's PSE is significantly less than that available to producers in the USA and Canada (approximately 3 percent).

Examples of recent support measures for Australia's major competitors are detailed below:

Country	Support Measures
United States	<ul style="list-style-type: none"> • An analysis of United States Department of Agriculture (USDA) subsidies, from 1995 to 2005 show that approximately USD\$50 billion was made available to the top US pig producer states via a plethora of US assistance programs that include direct payments on corn, wheat, oats, sorghum, soybeans and other crops. • The Conservation Reserve Program also pays farmers' annual land rentals, management fees and incentive payments to conserve parts of their farms as wetlands, grasslands and forest reserves. • The current president of the National Pork Producers Council (NPPC) has also been a benefactor of US\$963,388 in USDA subsidies from 1995 to 2005. • However, despite these payments being publicly disclosed and WTO compliant it is difficult to prove the indirect benefit of these support mechanisms on US pig production and prices and therefore their impact on the Australian industry. Thus, as mentioned earlier, making it hard to initiate a challenge in the WTO.
Canada	<ul style="list-style-type: none"> • The Canadian Agricultural Income Stabilisation (CAIS) program was available to Canadian pig producers in 2007 and in 2005, with the Canadian Government funding up to CAD\$4 for every CAD\$1 that a producer contributed. It is likely to increase the supply of pigmeat and lead to some decline in prices in both the Canadian and world markets. • Another Canadian province's program directly links payments to the amount produced; the support providing lower input costs to reduce volatility in income and reduce costs of production. • The Canadian government in March 2008 announced that they will pay their pork producers \$225 (CAD) for every sow or boar slaughtered, in the hope to reduce their herd by 10 percent or 9 million pigs over the next three years. No such assistance is available to the Australian industry, with a reduction of 20 percent in its herd size forecast by June 2008. • Support to producers (percent PSE) was unchanged over 2004 and 2005 at 21 percent, but it fell from 36 percent in 1986-88 to 22 percent in 2003-05, compared to an OECD average of 30 percent.
China	<ul style="list-style-type: none"> • Pork producers in China can receive a payment of Renminbi (RMB) 100 per head for every sow, up from an earlier payment rate of RMB 50 per head. The Chinese government previously indicated that the value of these payments was RMB886 million when the payment was RMB 50 per head. • The China Insurance Regulatory Commission oversees a sow insurance program, and that total annual premiums for this program are RMB2.9 billion, with the Chinese government paying for 76 percent of the total annual premiums. • China makes payments to large-scale pork breeding farms, based on farm size. • Specifically, farms with 500-999 heads receive RMB 2 million per year, farms

	<p>with 1,000-1,999 heads receive RMB 4 million per year, farms with 2,000-2,999 heads receive RMB 6 million per year and farms with greater than 3,000 heads receive RMB 8 million per year.</p> <ul style="list-style-type: none"> • China makes payments to pork producers in Southern China for weather-related losses and that these payments range from RMB 200,000 to RMB 1 million, depending on the size of the production facility. • China makes payments to pork processors related to the slaughtering of hogs, with the payment being between RMB 50 and RMB 100 per head slaughtered. • China makes payments to pork producers related to the artificial insemination of sows, with payments of RMB 10 per dose and an additional RMB 10 for each sow that is successfully bred. • Many agricultural products are exempted from China's 13 percent value-added tax (VAT) normally applicable to agricultural products.
Denmark (European Union)	<ul style="list-style-type: none"> • Private Storage Aid (under the EU Common Agriculture Policy) is available to Danish producers when the market is weak and prices are low. Private Storage Aid was introduced in 2007 for about 6 weeks before being withdrawn and replaced with Export Refunds. • Private Storage Aid aims to hold domestic prices up, thus insulating pork producers and maintaining production. It also provides a storage subsidy to packers, covers interest losses and the product remains available for export at the end of the storage period. • Private Storage Aid is a barrier to the entry as it insulates the local industry from risk, providing a degree of local price control by controlling supply. • To identify a benefit to processors exporting to Australia, it is not possible to prove beyond doubt that higher prices in the domestic market for processors are cross-subsidising exports without access to cost and price data from the Danish Crown which controls 90 percent of production and exports. • The price between the EU price level and the world market price level can be managed by paying exporters an export refund. Export refunds have been applied in the past, effectively shielding Danish producers from income risk when exporting to third countries (i.e. outside of the EU).

Current agricultural support policies of our competitors are protecting pork producers from market signals, preventing them from becoming internationally competitive and innovative.

It seems reasonable to conclude that the hundreds of billions of dollars of support available to feed grain and pork producers and pork processors must have some impact on production and hence prices.

Such impacts could be expected to occur through: higher volumes of production than would be otherwise economic; leading to lower prices sustainable with profit for producers; and with pork producers indirectly benefiting from subsidies to grain inputs (feed grains being the target for many of the support mechanisms).

Non market-based production subsidies significantly distort agricultural commodity markets. They impact the industry’s capacity to compete on export and domestic markets. These agricultural support mechanisms have an anti-competitive effect and must be liberalised in the WTO Doha Round.

APL’s strategic plan addresses the impact of these challenges and is working with commercial companies on the ground in our export markets. Such partnerships will ensure that these concerns are addressed. However the priority for government is to reduce any tariff and non-tariff barriers which indirectly raise the cost of production.

3. Competition within the ASEAN

In 2006, total imports of pork into ASEAN were 200,946 metric tons (MT) of which the U.S. had a 4 percent market share. Most of the U.S. pork muscle cuts were destined for the Philippines and Singapore, while the Philippines also imported the lion’s share of U.S. pork offal. Australian pork dominates the ASEAN chilled pork market (particularly Singapore) while Brazilian and Chinese pork takes the major share of the frozen pork import market.¹

Many of the countries mentioned above have significant market price support and compete directly with Australian exports in ASEAN countries.

As shown below, the top export countries include the European Union (primarily Denmark), Canada and the United States. Brazil and Chile are also large exporters of pork.

Top World Pork Import and Export countries (1000 metric tonnes)			
Import		Export	
Country	2005	Country	2005
Japan	1339	EU (15)	1350
United States	464	Canada	1083
Russia	675	United States	1207
Mexico	420	Brazil	761
Hong Kong	305	China (mainland)	331
South Korea	328	Chile	129
China (mainland)	41	Hungary	95
Canada	139	Poland	70
Romania	185	Mexico	59
Australia	99	Australia	53

Source: FAS/USDA, 2006.

World consumption of pork increased by 27 percent or 93 million metric tonnes (MT) from 1997 to 2005. The top pork producing countries in 2005 were China with 50 percent of the world herd, followed by the European Union (primarily Denmark), the United States, Brazil and Canada.

4. Australian import protocols

¹ http://www.usmef.org/TradeLibrary/files/07_SMP_ASEAN_Pork.pdf

The Australian pork industry is technically proficient and has advantages over its international competitors largely in terms of animal health and disease. For example, whilst Australia has the more common pig diseases such as Mycoplasma pneumonia, swine dysentery, pleuro pneumonia and ileitis, it is free of the more devastating diseases such as Post-weaning Multi-systemic Wasting Syndrome (PMWS), Porcine Reproductive and Respiratory Syndrome (PRRS), Swine Influenza Virus and Circo Virus related diseases. All these diseases have had marked adverse effects on animal mortality and the efficiency and costs of production in virtually all other countries over the last five to ten years. Australia is also free of exotic diseases such as Foot and Mouth and Classical Swine Fever, both of which affect global export opportunities.² These diseases also increase the industry's costs of production.

While the North American and European experiences highlight the devastating effect diseases such as PMWS and PRRS can have on productivity, consideration must also be given to the adverse impact that this can have on our markets both real and perceived. These perceptions are what enable us to market Australian pork internationally as a premium product.

Our strong quarantine systems are key strategic international marketing advantages and are vital to the competitiveness and growth of the industry. As a global player that operates in both an import and export market, the Australian pig industry through APL clearly does not support zero level risk management. Zero risk would be detrimental to the pork industry, far more than is currently appreciated by some commentators. This is because any loss of export markets would result in oversupply of pigmeat in the domestic market causing further havoc with producer prices – something the industry can ill afford. Any export market that provides the industry with the opportunity to diversify its demand base is welcome.

Nor does APL support an open door policy: it is not reasonable that Australia should maintain an open border to all trade products and assess the risks as they arise. Border, pre-border and post-border activities are a critical part of our quarantine processes. APL welcomes the Beale Report's recommendations in regard to these issues.

The current import policy is based on an Import Risk Analysis (IRA) conducted by BA, which recommended that imports of pigmeat be permitted subject to conditions depending on the health status of the export country.

The following countries currently have permission to export deboned pigmeat to Australia:

- Canada (Cooked and uncooked for further processing)
- Denmark (Cooked and uncooked for further processing)
- United States of America (Cooked and uncooked for further processing)
- Finland (Uncooked for further processing)
- Sweden (Uncooked for further processing);
- Spain (Dry cured Serrano type ham)
- Italy (Dry cured Parma type ham)

² APL Submission #3, Safeguards Inquiry into the Import of Pigmeat, p.74

(The specific conditions for import are described in the current Pig Meat Import Risk Assessment (IRA) 2004 and are listed in the Australian Quarantine and Inspection Service (AQIS) Import Conditions (ICON) database.)

Brazil, Chile, the Republic of Korea, South Africa, Taiwan, Mexico, New Zealand, and Hungary have also requested market access since the establishment of the new import policy, but due to disease risks have been refused.

Imports from the US, Canada and Denmark dominate the Australian processed sector for pork, supplying up to 67 percent (January Moving Annual Total (MAT) 2008) of this market. The share of imports of the processed pork sector has steadily increased. Imports share of the Australian market for pigmeat as a whole has increased by approximately 10 percentage points, a further increase to an existing high base of 58 percent when compared to January MAT 2007, effectively threatening to capture the total market (short of a small volume restricted by quarantine restrictions on bone-in products).

Over the last five years the pork industry has aggressively marketed Australian pork, achieving consistent rapid growth in fresh pork consumption and resulting in a 35 percent increase in fresh pork consumption. However, as shown above it has been imports that have taken an increasing share in the growth of the Australian pork market relative to production and consumption. Import penetration measured through the share of imports of total apparent consumption (i.e. imports' share of domestic production plus imports minus exports) has also markedly increased, rising from around 20 percent in 2002-03 to 34 percent in 2006-07.

5. Disease management in the ASEAN

Disease management in the ASEAN is an ongoing problem, limiting export market access for ASEAN producers and is a competitive disadvantage.

According to an Australian Bureau of Agricultural and Resource Economics (ABARE) report, '*Barriers to ASEAN meat exports: economic impacts of disease outbreaks and policy responses*³', Hygiene and animal diseases such as foot and mouth disease (FMD) and classical swine fever are important factors that limit pig meat exports from ASEAN.

Vietnam and Thailand are the largest ASEAN pork exporters. In 2005, pork exports from Vietnam and Thailand were only 62,000 tonnes. The major markets for Vietnamese pork have been Hong Kong and Russia. However, Vietnam has lost the Russian market to other competitors in recent years owing to outbreaks of FMD. If Vietnam and Thailand were able to overcome problems of hygiene and animal diseases, while strengthening their overall cost competitiveness, and gain certification to export to those nations there would be potential for them to increase exports to these markets.⁴

Historically, backyard operations have dominated meat production in most ASEAN countries. In backyard farms, small numbers of animals are kept in household yards to provide household nutritional needs and supplementary income for families. However,

³ http://www.abare.gov.au/publications_html/livestock/livestock_07/asean07_report.pdf

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animals are fed mainly on crop by-products and residues that have poor nutrition. Hygiene and veterinary practices are poor, while the technologies used in animal raising and breeding are limited. Consequently, it is difficult to achieve productivity gains and a high level of biosecurity in backyard production systems. For these reasons, backyard operations are not cost competitive in livestock marketing for the meat export trade. Backyard operations have been declining in ASEAN countries, while integrated commercial operations have been increasing.⁵

Recurring livestock disease outbreaks limit ASEAN export opportunities for pig meat products, particularly for trade in uncooked products.

In Vietnam in particular, foot and mouth disease is prevalent.⁶ Pork exports from Vietnam to Japan are currently banned because of foot and mouth disease, and as Vietnam's major markets for pork are Russia and Hong Kong,

6. Singapore market

In 1998, the Nipah virus in Malaysia devastated the Malaysian pig herd and prompted the Singapore government to ban all pig imports and look to other countries as a new source. Singapore had relied solely on pork imports for consumption. Intent on long-term market access, Australian pork worked with Austrade Singapore, AQIS and the Singapore Agri-Food and Veterinary Authority (AVA), to brand its product "AIRPORK" and to begin distribution and build brand preference. Australian pork went from zero market share to capture 95 percent of the chilled pork market in Singapore.

Australia's herd health status helped Australia's market entry into Singapore. Today, Singapore is the Australian pork industry's greatest success, with marketing programs funded in part by the Export Market Development Grants (EMDG). For the financial year 08-09, APL received \$150,000 from the EMDG scheme all of which was used to assist APL's marketing efforts in Singapore.

In developing strategies and conducting relevant market research, APL has engaged the services of:

- Food Advantage Consulting Services
- Market Probe Precision Research (MPPR) Singapore
- The Research House - Singapore
- Trade data purchased

These services have aided the understanding of target export markets, defined strategic priorities and measured the efficacy of implemented programs.

Past export promotional activities have helped to drive overseas demand for Australian pork to a total Moving Annual Total (MAT) value of \$157 million in 2006/07, an increase of over 280 percent since 1997/1998. In volume terms, Australian pork exports have increased from 12,170 tonnes Shipped Weight (SW) to 48,017 tonnes SW in the same period. APL export

⁵ http://www.abare.gov.au/publications_html/livestock/livestock_07/asean07_report.pdf

⁶ <https://qir.kyushu-u.ac.jp/dspace/bitstream/2324/9270/1/p459.pdf>



promotion programs fuelling such growth include the Singapore AIRPORK brand development.

EMDG funding has enabled the Australian pork industry to create relationships and trading alliances between commercial entities in both Australia and Singapore. These relations and activities have contributed to sales in Singapore remaining relatively stable.

I trust this information is useful and welcome any further questions from the Joint Standing Committee on the Joint Standing Committee on Foreign Affairs, Defence and Trade.

Yours sincerely,

A handwritten signature in cursive script that reads "K. Plowman".

Kathleen Plowman
General Manager Policy