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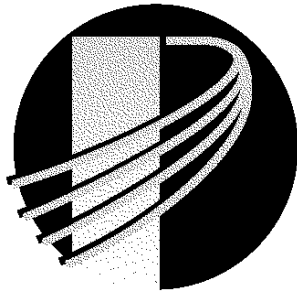
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PRIMARY INDUSTRIES AND RESOURCES SA

The Australian Pig Industry Crisis – An Unexceptional Circumstance!

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Abstract:

The collapse in Australian pig prices during 1997/98 to their lowest levels in three decades triggered the third industry economic crisis for the nineties, appeals for government assistance and relief from pigmeat import competition. Two national inquiries were instigated in 1998: a Rural Adjustment Scheme Advisory Council (RASAC) *Exceptional Circumstances* inquiry and later, a Productivity Commission (PC) inquiry, "*Pig and Pigmeat Industries: Safeguard Action Against Imports*". The PC inquiry also examined factors affecting the competitiveness of the Australian pig and pigmeat industries.

RASAC concluded that the pig industry crisis did not fit the criteria for 'exceptional circumstances' assistance. The Federal Government response has included: the *National Pig Industry Development Program* (NPIDP) to help adjust the industry to an export focus and the *Pigmeat Processing Grants* (PPG) program for upgrading pig abattoirs to export standard. Economic studies to benchmark the production and processing industries are proceeding and an Export Marketing Council has been formed to facilitate export trade. Funding for pig farmer training under the *FarmBis* program was also promised.

A 1992 inquiry by the Australian Customs Service into dumping and subsidisation of Canadian pork found no injury from imports and a 1995 Industry Commission inquiry, *Pigs and Pigmeat*, found little influence of imported pigmeat on domestic pig prices. The 1998 PC inquiry, which reported in November, 1998, is of particular interest because it is a precedent 'safeguard action against imports' inquiry by Australia under World Trade Organisation (WTO) rules.

This paper reviews the 1998 pig industry crisis, outcomes of the 1998 inquiries and the industry/government export marketing strategy. In a trading environment where imports from Canada have been progressively relieved of sanitary/phytosanitary quarantine controls the Australian pigmeat industry faces challenges to become competitive in the international market. Exposure to the world market has increased price volatility, with the recent crisis clearly signalling danger and the need for change. In that sense the Australian pig industry is joining the situation of other primary industries participating in international markets without protection. The circumstance is neither unique nor exceptional.

Introduction

From July, 1990, the Australian Government has progressively relaxed quarantine restrictions on imports of pigmeat. Currently Canada, Denmark and the South Island of New Zealand are able to export uncooked pigmeat to Australia, with post-arrival conditions for cooking in the case of Denmark and cooking or fermentation in the case of Canada (see Appendix 1).

Imports of uncooked pigmeat enter duty free, and this zero rate has been bound with the World Trade Organisation (WTO) since 1 January, 1995 (Productivity Commission, 1998, p4).

In 1997/98, imports from Canada accounted for about 80 percent of the value of pigmeat imports. Imports of uncooked pigmeat from the South Island of New Zealand, and imports of cooked, canned pigmeat accounted for the remaining 20 percent (Productivity Commission, 1998, p4).

Previously protected by sanitary/phytosanitary (SPS) protocols the relatively small and domestically orientated Australian pig industry has consistently seen Canadian imports as subsidised, unfair and an unwelcome threat to the home market and the viability of pork producers.

The industry mounted an anti-dumping case against imports of Canadian pigmeat, resulting in an Australian Customs inquiry in 1992. Customs found "no injury"; a finding that was subsequently upheld by the Anti-Dumping Authority and the Federal Court in 1993. In 1995 the Industry Commission (IC) inquired into the effects of imports on the performance of pig and pigmeat industries in Australia. The IC found that:

"So far, pigmeat imports do not appear to have had an appreciable effect on the level or seasonality of domestic pig prices, on the prices of local pigmeat for manufacturing, on the performance of the pig and pigmeat industries, or on the Australian economy generally."

If imports did not appear to have had an appreciable impact by the mid-nineties it was perhaps only a matter of time before circumstances would change to link the Australian domestic market to the world market for pigmeat. This paper is about the 1998 pig industry crisis, when the link was cemented in a very forceful way.

The 1998 Pig Industry Crisis

In October, 1997, pig prices started falling from around 223c/kg in September and continued to fall to 156 c/kg in June, 1998, hitting 135c/kg in South Australia. Prices then rose to around 190c/kg through the second half of 1998,

"but these prices are well below prices normally received at this time of the year" (Productivity Commission, 1998, p35).

Historically the price pattern had been seasonal with prices falling through the first half of the year, then rising to a pre-Christmas peak as processors stocked up for the purchase of Christmas hams by consumers.

By autumn, 1998, it was clear that the pig industry was in crisis. In response to an application by the industry for Exceptional Circumstances assistance the Federal Government asked the Rural Adjustment Scheme Advisory Council (RASAC) to conduct an assessment. In June, 1998, RASAC concluded that:

“the current situation being experienced by the Australian pork industry does not meet the Council’s criteria of an exceptional circumstances event.”

RASAC did recognise that producers were experiencing extreme difficulty, and provided the diagnosis that the downturn in prices was:

“a market adjustment resulting from an oversupply in the domestic pig market.”

RASAC’s research showed that:

“prices for pig meat, both in Australia and overseas, had fallen and although current prices are below the long term trend, this is not exceptional.”

In a drive for competitiveness and an increased export focus the Federal Government had announced in November, 1997, a \$10 million package of assistance including the centrepiece National Pig Industry Development Program (NPIDP). Few applications for the NPIDP were received by mid-1998. So, the criteria were relaxed in July, 1998, and an extra scheme, the Piguemeat Processing Grants (PPG) scheme, was launched with funding of an additional \$9 million.

The coincidence in time of the fall in pig prices with further relaxation of pigmeat import protocols in October, 1997, reinforced the industry view that imports were a major contributing factor in the crisis. ABARE, however, had other explanations for the crisis, with little weight given to imports (ABARE, 1998). ABARE principally attributed the low pigmeat prices to a combination of higher production, lower feedgrain prices and lower beef prices. Imports were acknowledged to also affect prices,

”but their role in the recent price fall is not clear cut.”¹

By May, the pig industry and the Federal Government engaged in a publicity battle about the causes of the crisis; a battle that was to extend into the October Federal Election campaign and beyond. “Piguemeat: The Facts” presented the government view of the crisis. Pork Council responded with “The Pork Industry Crisis: Myths and Realities”. The nil result with Exceptional Circumstances prompted a call by industry for a safeguards action against imports.

In late June the Federal Government launched a ‘safeguards action against imports’ under WTO rules, directing the Productivity Commission to inquire into the role of imports of uncooked pork and the profitability and competitiveness of the pig and pigmeat industries. This was to be the first time that Australia had conducted a WTO safeguards inquiry. With the

¹ No pigmeat to date has been imported under the particular protocol that changed in October, 1997.

industry experiencing its third crisis for the decade and its worst crisis in three decades the scene was set for serious focus on the PC inquiry.

The Productivity Commission Report

The Productivity Commission was asked to report on:

- whether safeguard measures would be justified under the WTO;
- if so, what measures would be necessary to prevent or remedy serious injury and to facilitate adjustment; and
- whether, having regard to the Government's requirement for assessing the impact of regulation which affects business, those measures which should be implemented.

The PC was also asked to report on factors affecting the profitability and competitiveness of the domestic pig farming and pigmeat processing industries. The report was completed in November, 1998.

The key findings of the PC were that:

- the pig industry has, and is, suffering serious injury as a result of prices consistently lower than average production costs;
- the injury has been caused principally by increased imports, which have driven down the price of pig legs, which have traditionally delivered a premium to producers;
- safeguard measures would be justified under WTO criteria;

Notwithstanding the justification the PC noted that:

“a safeguard measure would not of itself promote adjustment or exports” (pxxx).

The Commission suggested that existing support measures might be more appropriate than safeguard measures:

“measures that directly promote industry restructuring and an export focus, while providing assistance to those leaving the industry, might be more appropriate than safeguard measures. Various support measures are already in place” (pxxx).

The PC conducted a comprehensive inquiry, presented a cogently argued and credible appraisal of the pig industry crisis and its causes, arriving at logical and convincing conclusions. In all, a report that stands tall as a precedent safeguards action in Australia.

In doing so the PC:

- satisfied itself that the pattern, depth and duration of the fall in pig prices and profitability in the first half of 1998 was not within ‘normal’ bounds;
- vindicated pig industry belief that imports were impacting on domestic prices, with the key leg market seen as capable of driving the overall market;
- gave little weight to argument that the pig industry brought the crisis upon itself through increased production and inattention to export development;

- explained the genesis of the crisis as an unforeseen situation in which importers reacted to earlier higher prices and their decisions to import to contain domestic prices, in essence changing previous policy of 'Australian only' to one of strategic importing in combination with predominant use of domestic supply, bringing local supplies into world pricing – 'Australian pigmeat at world price'. This situation could have been achieved years sooner, along with changed importing protocols and a zero tariff. It actually required conditions of severe price disadvantage for processors to prompt a policy swing by the small number of firms that had the opportunity to implement change. These firms increased supply from imported products and adjusted contract prices for domestic supply in line with the cost of the import alternative.
- arrived at conclusions not inconsistent with that of the econometric models but with criticisms about the adequacy of all present models to emulate the workings of the market with respect to imports.

Politics and Policy

The 1998 pig industry crisis provided an interesting test for government of adjustment and trade policy in an election year. Determination not to allow a breach of WTO rules saw willingness to provide grants for abattoir and market development while standing firm against industry appeals for tariffs or quotas.

Down-playing the contribution of imports to the crisis while providing substantial funds for industry development, initially on conditions that saw little interest and no expenditure, gave an appearance of "victim blame": denying a role for the principal causative factor of imports, blaming the industry for overproduction and lack of marketing and providing assistance on terms where little would actually be spent.

The Productivity Commission report provided significant clarification of fact and policy options enabling change from an unhappy 'free trade versus fair trade' gridlock between industry and government that has pertained through the decade since the policy pathway towards an open market was flagged. Importantly, the Productivity Commission's cogent analysis and findings were like an early Christmas present in the bundles of joy the report contained for both industry and government: a welcome vindication for industry that imports are in fact playing a major role in price determination and confirmation for government that tariffs and quotas are not the way to go. This newly achieved respect from both industry and government for the facts will hopefully help both parties to move on from the politics of last resort displayed during the election campaign by the Pork Council (McKenzie, 1998) and adjust their sights to the future (Moar, 1998).

Government can take heart that measures put in place in the past year are more appropriate to the future than any attempt to revert to protectionist measures which could be detrimental to the trading interests of other industries and the economy at large. In the lead up to a policy response to the Productivity Commission report Minister for Agriculture, Fisheries and Forests, Hon. Mark Vaile, is adamant that tariffs and quotas are not on the agenda

(Adams, 1999; Davis, 1999; Henderson, 1999). Compulsory identification of imported pigmeat and additional assistance for marginal pig farmers appear to be under consideration.

Progressive relief from sanitary/phytosanitary protocols through the 1990s has seen the Australian pig industry approach a trade status which is virtually free with respect to pigmeat imports but not obviously fairer or more promising; where its linkage to the world market is confirmed but its competitiveness is unclear. Without alleviation of present impediments to competitiveness, identified by the Productivity Commission, there is reason for concern that current policy measures may not be able to enhance competitiveness and profitability in the way, and to the extent, that is hoped.

Information from current benchmarking studies is needed to shed light on the extent of the gap to international competitiveness by the industry and the significance of contribution to that gap by domestic policies identified to be favouring other industries and disadvantaging the pig/pigmeat industry.

Conclusions

1. During 1997/98 the Australian pig/pigmeat industry saw price and profitability falls beyond 'normal', with serious economic injury to producers.
2. Although found not to be a Rural Adjustment Scheme 'Exceptional Circumstance', the crisis was exceptional in its triggering of other government assistance measures for the pig/pigmeat industry, a first Australian 'safeguard action against imports' inquiry and some novel political activity.
3. The 1998 Australian pig industry crisis was a crisis in waiting. Opening market policy from 1990, the price peak in 1996 and effective importer action from 1996/97 combined to forge the linkage of the Australian pig/pigmeat industry to the international market in 1997/98 when world markets were oversupplied and prices low. The connection conforms with standard trade theory rather than exercise of market power by importers, but has been much lagged in achievement.
4. In contrast to previous inquiries, the 1998 Productivity Commission report was unequivocal in concluding that the cause of serious injury to the pig/pigmeat industry was principally increased imports, while critically appraising the alternative explanations of others.
5. The Productivity Commission found that safeguards action against imports would be justified, but noted that the most appropriate response from the present position is not tariffs or quotas. Present policy measures promoting adjustment and export market development were supported by the Productivity Commission. Ultimately it is market settings, market access and intrinsic competitiveness which will determine whether grants

and any other incentives to adjust to an export market focus are effective in lifting trade competitiveness and profitability of the Australian industry.

6. The pending policy response by the Federal Government to the Productivity Commission report may contain some measures of appeasement for the pig industry, such as identification of imported pigmeat on product labels and additional assistance for marginal farmers to exit. Measures of even greater economic significance to the pig/pigmeat industry's future include decreasing domestic cost disadvantages, such as stem from single desk grain marketing arrangements, and gaining equally open entry for exports to other countries to match the ease of entry for imports into Australia. Without policy progress in these tortuously difficult areas the path to freer trade for pigmeat into Australia will likely continue to be judged by industry as short on fairness.
7. Though severe and costly, the experience of the Australian pig industry in 1998 has not been 'exceptional', in fact it is very similar to the intermittent crises that other primary and unprotected industries exposed to world markets experience. While signs of positive and appropriate responses to the crisis by producers, industry and government are emerging, more will be needed to shape a world competitive and profitable industry.
8. The fact that the Productivity Commission did not rely on econometric models of the Australian pig industry for its findings suggests that present models need further refinement, and possibly more data, before they can explain the real market behaviour of the industry with credibility.

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Appendix 1

SIGNIFICANT CIRCULARS PERTAINING TO IMPORTATION OF PIG MEAT SINCE 1990

1990

Doc No	Approx date	Title of circular	Description
141	22.6.90	Importation of Uncooked Pigmeat from Canada	AQIS distributes technical discussion papers relating to important disease considerations pertaining to importation of uncooked pig meat from Canada.
197	23.8.90	Conditions for the Importation of Uncooked Pigmeat from Canada	Following protracted discussions, AQIS finalises conditions for importation of uncooked pig meat from Canada. These conditions did not include any requirement for cooking either before or after importation.

1991

24	1.2.91	Importation of Pigs from Denmark - Quarantine Requirements for pig reproduction centres for imported pigs	AQIS distributes some discussion papers on proposed Pig Reproduction and Quarantine Centres for imported pigs. (This proposal did not gain support during follow up discussions.)
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1992

88	10.7.92	Third report of PRRS Working Party	The Working Party convened by BRS was circulated by AQIS. This report recommended that pig meat imported from PRRS endemic countries should be cooked to kill the virus.
158	10.12.92	Importation of Pig Meat from Canada - Implementation of Interim PRRS Requirements	AQIS revises conditions to require an import permit and either cooking equivalent to 56°C for 60 min or fermentation to a pH of 5.2.

1994

15	14.2.94	AQIS Issues Paper on Quarantine Risk Assessment for Danish Pig Meat Access	Following an approach from the Danish government, AQIS circulates an issues paper on risk assessment for Danish pig meat.
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1996

18	22.2.96	AQIS Discussion Paper on Porcine Reproductive and respiratory Syndrome (PRRS) and Importation of Live Pigs and Pig Semen.	AQIS circulates a discussion paper pertaining to aspects of PRRS transmission via meat and semen.
27	19.4.96	Amended Conditions for Pigmeat Imported from Canada	Following evidence that the cooking process is sufficient to kill trichinae, AQIS lifts requirement for prior freezing of cooked pig meat from Canada.
56	1.11.96	Import Risk Analysis (IRA) of Pig Meat Imported from Denmark	AQIS distributes a discussion paper on import risk analysis for pig meat from Denmark and invites comments.

1997

95	10-11-97	Finalised Quarantine Requirements for the Importation of Uncooked Pig Meat from Denmark	AQIS approves conditions for importation of meat from Denmark with provision for cooking post-entry to kill PRRS virus.
96	10-11-97	Finalised Quarantine Requirements for the Importation of Cooked Pig Meat Products from Canada	AQIS approves importation of cooked pig meat from Canada equivalent to that which is cooked post-entry.

1998

17	17-02-98	Import risk analysis: pig semen consultation on scope and process issues	AQIS proposes non-routine import risk analysis for pig semen from a range of countries.
45	20-05-98	Import risk analysis: pig meat - consultation on approach	AQIS proposes non-routine import risk analysis for pig meat from a range of countries.

Source: Australian Quarantine Inspection Service (AQIS), Canberra, ACT