Agenda, Volume 6, Number 2, 1999, pages 187-191

NON-AGENDA

With the view of causing an increase to take place in the mass of national wealth, or with a view to increase of the means either of subsistence or enjoyment, without some special reason, the general rule is, that nothing ought to be done or attempted by government. The motto, or watchword of government, on these occasions, ought to be — Be quiet. . . Whatever measures, therefore, cannot be justified as exceptions to that rule, may be considered as *non-agenda* on the part of government.

—*Jeremy Bentham* (c.1801)

Pigs!

Alistair Watson

Economic problems of the pig industry have been at the forefront of Australian agricultural policy discussion over the last few years. There were two national inquiries in 1998, by the Rural Adjustment Scheme Advisory Committee and Productivity Commission respectively. In response to earlier periods of low prices, there had been inquiries by the Industry Commission in 1995, the Australian Customs Service in 1992 and the Anti-Dumping Authority and Federal Court in 1993. The proximate cause of this flurry of report writing, bureaucratic and political activity was the decision of the Australian Government to relax quarantine restrictions on imports of pigmeat in July 1990. This opened the Australian market to imports from Canada, Denmark and the South Island of New Zealand subject to animal health protocols developed by the Australian Quarantine and Inspection Service.

The pig industry has recently started to consume even more bureaucratic resources and taxpayers' money. The Federal Government announced a $10m National Pig Industry Development Program in November 1997 and $9m for a Pigmeat Processing Grants Scheme in July 1998 (Ronan, 1999). Subsequently, when rejecting the Productivity Commission recommendation of a temporary tariff on imports of 10 per cent reducing to zero over two years, the Minister for Agriculture announced a further increase to '$24m worth of assistance for the industry which will fund a pork producer exit program' (ABC, 1999).

There are now around 3000 pork producers in Australia. On a rough measure, the above assistance averages over $8000 per producer. Not that 'average'

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assistance makes much sense in the context of the pig industry. In 1997, one per cent of pig farms with more than 1000 sows or 35 herds contained 38 per cent of the total number of sows in Australia — an extraordinarily skewed distribution (Australian Pork Corporation, 1998:12). The estimate also ignores administrative costs imposed by reviews of assistance and demands placed on the quarantine system to provide detailed scientific information. The estimate is possibly inflated by the tendency of government to double count assistance. On the face of it, the Pork Council has done well from its investment in lobbying notwithstanding the leakage that will occur to processors and to consulting organisations undertaking the myriad of 'benchmarking' and other studies intended to make the industry 'internationally competitive'. Whether larger pig producers will benefit in the long run from government programs to improve productivity in the processing sector is a moot point. Most of them have the resources to organise their own business strategies, without the distraction of coaching consultants in the fundamentals of the pig industry.

The issue considered here is whether current policies of substantial direct and indirect assistance to pigmeat production and processing will 'help the industry to become more export competitive' (ABC, 1999). During the Productivity Commission Inquiry it was asserted by some producers and processors that the pig industry would develop export markets if it were afforded temporary protection and given time to adjust. Although the claim for temporary assistance by way of tariff was rejected, that argument was accepted in effect by government, as witness market development programs now being generously supported. Insiders have suggested that much of the enthusiasm for exports came from the Federal Government rather than people in the industry. The pig industry is taking what it can get from government rather than what it wants.

It is common for politicians to claim that industries struggling to compete on the domestic market have the potential to export. The claim is considered below because public money is being spent in the name of export promotion, not that mercantilist sentiment underlying export promotion should be taken too seriously. Naturally, the programs are generating their own momentum and the money will be spent. No doubt, in three years or so there will be some form of ritual 'evaluation'. However, it is worthwhile at this late stage posing the simple question: What are export prospects for the pig industry?

For most agricultural products, it defies common sense that exports could co-exist with imports of the same product — generally described as intra-industry trade. Intra-industry trade is common for manufacturing industries producing differentiated products like motor vehicles. The pig industry is unusual for agriculture because it is a constant cost industry — in its modern version using more or less standard technology in all developed countries. This makes international cost comparisons more useful than usually the case. Intensive pig production does not require much land. Feed represents a high proportion of costs. As such, it is similar to manufacturing where input costs have pervasive effects on profitability. Around 60 per cent of input costs in pig farming are feed costs, with 60 per cent of feed costs accounted for by grain (Productivity Commission, 1998:88). Proximity to grain production areas is an important factor in successful pig production because of the importance of transport costs in the cost of feed. Because of its history – first, a joint product with dairying using skim milk in the days of on-farm separation of butterfat and, next, a joint product with grain using surplus grain in the era of wheat quotas and 'surplus' labour on small farms— the pig industry contains a large number of small enterprises scattered throughout the country (Australian Pork Corporation, 1998:10). Almost half the herds, with less than 25 sows, account for around four per cent of output. Many of these are part-time operations, unlikely to benefit from export development programs however conceived or conducted.

There are opportunities for intra-industry trade for larger firms in the pig industry arising from differences in location, size and profitability of firms, raw material costs and seasonality of production. The trade in pigmeat and raw materials for pigmeat production between the United States and Canada is evidence on this point. In 1997, the United States was the largest world exporter of pigmeat and the second largest importer. Canada was the third largest exporter of pigmeat and the next largest exporter of barley after Australia. Nevertheless, Canada imported half as much corn (maize) as its exports of barley including barley for malting as well as feed. By way of further example, exports and imports of pigmeat from Australia were roughly equivalent until most recent years (ABARE, 1998).

As revealed in the inquiry by the Productivity Commission, there are international differences in premiums and discounts associated for different cuts from the pig carcass. Because of the seasonal demand for hams at Christmas, legs are relatively dearer in Australia than other cuts. Any injury caused by imports has arisen from imports of legs eliminating traditional seasonal premiums. Correspondingly, Australian firms have the potential to export other cuts to markets like Japan and Hong Kong accounting for around 75 per cent of world imports of pigmeat. The quality of Australian pigmeat and the excellent animal health standards of the Australian pig industry also ensure that some Australian producers and processors will be able to compete on export markets from time to time. Whether government programs are necessary to point this out to firms in the pig industry is debatable.

Why pigmeat is a minor product in Australian agriculture and a major product in the United States and Canada should be considered before export markets are regarded as a salvation for the industry as a whole. It is most unlikely that the Australian industry in aggregate can compete in third markets with North American producers with access to lower cost raw materials and less competition from other meats on their domestic markets. Corn (maize), soya beans and Canola are much cheaper sources of energy and protein for intensive livestock production in North America than are available in Australia. These crops have a limited place in Australian farming systems, because of differences in day length and the quantity and distribution of rainfall. Major Australian cereal crops are usually grown with low winter rainfall, and chancy rainfall at that. In North America, conditions are more propitious for crop production. Rainfall is higher and less variable. A wider range of crops can be grown. Intensive livestock industries depend on high-yielding crops grown in summer with higher temperatures and greater day length. This is not possible in Australia.

Table 56 of the standard source document Australian Commodity Statistics (ABARE, 1998) provides export price quotations for the major feedgrains — hard red winter wheat, yellow corn, sorghum and barley. Wheat is dearer by around US$30 per tonne than other feedgrains. Corn is scarcely grown in Australia. Sorghum is grown in northern New South Wales and Queensland but output is extremely variable. Bunge Meat Industries, the largest Australian producer of pigmeat, in its submission to the Productivity Commission Inquiry, indicated that the gap between US corn prices and Australian domestic wheat prices was equivalent to around nine cents per kg in production costs (Productivity Commission, 1998:90). This equates roughly to a permanent cost disadvantage to Australia of about five per cent — hardly the basis of a successful export industry. Compounding these difficulties, the Australian pig industry suffered from restrictions on imports of grain during recent droughts, certainly beyond reasonable quarantine requirements. If this unsavoury episode is repeated in future droughts, the best that can be hoped for is that some Australian pig producers and processors will be competitive on export markets in non-drought periods.

Wheat and barley are dear grains for feeding Australian livestock. The position of intensive livestock industries in Australia is worsened by grain marketing arrangements. In their study of the chicken meat industry, Larkin and Heilbron (1997) calculated that local feed costs were 17 per cent higher than the United States due to different components in feed rations and marketing arrangements. While Australia and Canada suffer from statutory marketing of wheat and barley, statutory marketing has worse effects on intensive livestock industries in Australia. Because of geography and quirks of regulation, internal transport of grain is dearer in Canada. This favours export of grain processed as pigmeat rather than grain *per se*. Although the domestic market is ostensibly deregulated for wheat and barley, Australian firms in intensive livestock industries are unable to manage price risks effectively because of 'single desk' or export monopoly powers of the boards. Even large firms are tied to boards because they have to ensure access to grain in the face of fluctuating production.

On the demand side, the Australian climate allows ruminant meat production (beef and lamb) based on grazing, without investment in housing and associated capital and labour requirements. Despite problems of market access, Australia exports beef to many countries, including Canada. In effect, Australian pigmeat competes with beef priced at export parity in Australia and beef priced at import parity in Canada. Another hidden cost to the pigmeat industry is generic promotion. Generic promotion has hindered the development of strong Australian firms with strong brands. Indeed, generic promotion has assisted the penetration of the Australian market by imported products.

The policy response of the Australian Government to the economic difficulties of the pig industry is a mixture of procrastination, populism and mercantilism with its associated false doctrine of international 'competitiveness'. As pointed out by Ronan (1999), what has happened to the pig industry is neither exceptional nor unusual in the context of other Australian agricultural industries, already participating in international markets without protection.

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