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The Australian Pig Industry Crisis - An Unexceptional Circumstance!

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Key Words

Pig and pigmeat industries, economic crisis, international trade competitiveness

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 Pork 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 1997/98 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 (see [Appendix 1](#)). Currently Canada, Denmark and the South Island of New Zealand are able to freely export pigmeat to Australia. Previously protected by sanitary/phytosanitary (SPS) protocols the relatively small and domestically orientated Australian pig industry has consistently seen imports as subsidised (in the case of Canada), unfair and therefore 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 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 (Figure 1).

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 Pigmeat 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. "Pigmeat: 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 World Trade Organisation (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 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 (see [Appendix 2](#)).

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, but in the end it took economic conditions and severe price disadvantage for processors to prompt a policy swing by the small number of firms that had the opportunity to implement change through a willingness to increase supply from imported products and to adjust contract prices for domestic supply to 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 may have taken heart that measures put in place in 1998 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 late 1998 during the lead up to a policy response to the Productivity Commission report the Minister for Agriculture, Fisheries and Forests, Hon. Mark Vaile, was adamant that tariffs and quotas were not on the agenda ([Adams, 1999](#) ; [Davis, 1999](#) ; [Henderson, 1999](#)). Compulsory identification of imported pigmeat was mooted, but little has been heard since. Additional assistance for marginal pig farmers was announced early in 1999 in the form of the Pork Producers Exit Grant (PPEG) program.

Progressive relief from sanitary/phytosanitary protocols through the 1990s has seen the Australian pig industry approach a trade status which is virtually free but not without industry rancour about its fairness; where its linkage to the world market and exposure to import competition is confirmed at the same time as unexpected export opportunities in Asia.

Without alleviation of impediments to competitiveness, identified by the Productivity Commission, there is good reason for concern that circumstances will arise where pig industry competitiveness will be compromised, particularly by grains industries policies.

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 the world markets were oversupplied and prices low. The connection conforms with standard trade theory rather than abuse 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 the most appropriate response from the present position was not tariffs or quotas. 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 focus are effective in lifting trade competitiveness and profitability of the Australian industry.
6. The Federal Government response to the Productivity Commission report included additional assistance for marginal pig 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, 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 and much to do about positioning Australia as a champion of free trade in world forums.
7. Though severe and costly to individual producers the experience of the Australian pig industry in 1998 has not been 'exceptional' in the context of the farm sector in Australia. In fact it is very similar to the intermittent crises that other unprotected, primary industries exposed to world markets experience. The unexpected access to markets in Asia following disease outbreaks in Taiwan and Malaysia have contributed to a recovery of prices through 1999. It becomes very difficult for industry to sustain an argument with government that the market is not the best arbiter of the volume of imports and exports.
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 refinement, and possibly more data, before they can explain real market behaviour 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.
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27	19.4.96	Amended Conditions for Pigmear 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

Appendix 2 - Notes on issues raised in discussions with SA Commercial Pig Group

Friday 19 th March, 1999, South Australian Farmers Federation

1. Productivity Commission Methodology

Following my reference to the fact that the PC report stated that econometric analysis of the role of imports in the pig industry crisis was not 'decisive' in their explanation of the causes of the crisis, and my reflection that I had been wrong in my forecast that econometric analysis would be decisive, I was asked how the PC arrived at their conclusions if it was not by econometric analysis.

My explanation referred to Presiding Commissioner, Professor Richard Snape's knowledge of trade theory. It should have extended to Professor Snape's investigative skills and powers in the context of a PC inquiry, together with his grasp of trade practice from many other industry inquiries. From more than sixty submissions, several public hearings, a modelling workshop and various private meetings, including piggery and abattoir inspections, Prof Snape gained privileged intelligence and insight to the workings of the pig and pigmeat industries and markets. He also had a skilled team of people supporting his work.

The complete answer to the question lies in the style and content of the report. I draw your attention to the following examples. On page 30 the PC points to the microeconomic action (ie firms importing) which achieved (from a processor/wholesaler perspective) a better alignment of domestic and imported prices for pigmeat:

"This significant increase (in imports) arose mainly because a major manufacturer changed its policy, probably due to the increased differential between domestic and imported prices, and because some of its competitors were importing."

Again, on page 78 of the report, the role of imports in the setting of domestic pig prices since 1996 is revisited:

"Essentially it became untenable for large non-integrated bacon, ham and smallgoods manufacturers to pay well in excess of import prices for local pigmeat while their smaller competitors used significant amounts of cheaper imports. Hence, larger processors not vertically-integrated with the pig growing sector commenced or increased the use of lower priced imported product."

In the section on evidence of causation (page 45) the PC refers to the 1995 [Industry Commission \(IC\)](#) report when it was forecast that if Canadian imports remained consistently cheaper than local pork legs, imports could increase substantially. The IC named the four firms which provided assurances not to import pork:

"..four major pork manufacturers - Darling Downs Bacon, Chisholm Manufacturing (associated with Woolworths), Don Smallgoods (a sister company of Bunge) and Watsonia - had given assurances that they would not use imported pork. Three of the four also had large pig farming interests. In practice, these assurances had the potential to act as a de facto restriction on imports, particularly if there was upward pressure on domestic prices."

In an important footnote (page 45) the PC added:

"Manufacturers may have benefited from lower import prices even though they did not import. This would occur if their combined demand did not exceed domestic supply of boned legs, at the import price. However, these companies account for a large part (40 per cent) of domestic ham and smallgoods production and they may have foregone the benefit of cheaper imports in order to sustain domestic pig prices, especially if also involved in pig farming."

Further on page 46:

"It appears that in this situation of high domestic prices and an increased differential between domestic and import prices of leg meat (in particular, in the lead up to the traditionally high-demand Christmas period), one of Australia's largest manufacturers decided to change its policy and to import pigmeat from Canada. This is supported by evidence (see sub. 52, p. 19 [Darling Downs Bacon Cooperative]) as well as the official data."

These references in the report reflect the Productivity Commission methodology, where a comprehensive team research approach involving extensive information gathering (some provided in confidence) and skilled report compilation based on synthesis of in-depth industry information with extensive knowledge of economic and trade theory led to a logical set of conclusions, grounded in fact and ringing with credibility.

The above quotes are consistent with comments made by Commissioner Snape during his visit to discuss the PIRSA submission with Mr Ron Ellis, Manager Industry Development, Cattle & Intensive Animal Industries, Mr Bill Giles, Principal Industry Consultant, and myself.

Finally, on page 55 the report weighs up its reliance on the alternative methodologies:

"Given the conclusions of the Commission's two consultants, and fundamental concerns about the methodologies employed in the various studies conducted for the Department of Primary Industries Queensland and Darling Downs Bacon (see Appendix G), the Commission has relied more on its understanding of the industry and economic analysis to assess the probable effect of imports. Nonetheless, the conclusions drawn are not inconsistent with the econometric analysis. As the independent referee appointed by the Commission to assess the econometric studies observed, imports "...do show up as significant a number of times - too often for this result to be entirely spurious."

2. Imports - The Dominant Causative Factor

The group expressed consternation about some people who are apparently still harking to domestic overproduction as a principal cause of the industry crisis. There can be little doubt from the PC report that imports were the dominant causative factor in low pig prices and reduced producer profitability during 1998.

Where previous inquiries this decade did not support the pig industry's dumping case against imports (1993), did not support protection for the pig industry from imports (1995) and did not assess the 1998 pig industry crisis to be a Rural Adjustment Scheme Exceptional Circumstance (1998), the 1998 PC pig and pigmeat industries inquiry report unequivocally concluded that imports played a dominant role in the 1998 crisis and that the market is fundamentally changed.

At the core of this change in the Australian domestic pig and meat markets are the circumstances of a policy change by the key firms where previous assurances not to import were overturned in circumstances where the financial disadvantage would have been too great not to do so:

The 1995 IC report had drawn attention to both voluntary assurances not to import and the incentive to import:

"..despite the fact that Canadian imports seemed to be cheaper than comparable local cuts, several major manufacturers had given assurances that they would not use imported pigmeat ." (IC, 1995,p16 quoted in PC 1998, p 29)

"..at the time it was anticipated that Canadian pork prices would rise, while Australian production costs would fall when the drought, which existed at the time, ended. Both of these factors "would help to reduce the incentive to import" (IC, 1995 in PC 1998, p. 30)

"The Commission's view is that it (the policy change) was not (foreseen), largely because the extent of the increased differential between the domestic and import prices was not foreseen." (page 30)

"The de facto import restriction imposed by the tacit agreement by several processors not to use imported product, which had kept the domestic leg price above the import price, disappeared and the market began to operate in the same manner as any market subject to import competition." (page 46)

So, the PC concluded that the setting of a zero tariff on pigmeat imports from 1 January, 1995, was in the context of assurances that major processors would not import pigmeat and that there would be little or no price disadvantage in making that assurance. In essence the PC concluded that a key policy setting was based on voluntary assurances in which neither government nor processors envisaged a significant

divergence of domestic and imported pigmeat prices.

In their prompting of and submissions to various inquiries into the role of pigmeat imports during the 'nineties' pig producers appeared quite alert to the potential for economic damage from imports. In the 1997/98 the market worked normally, albeit delayed several years by processor voluntary assurances not to increase imports and by circumstances in which the disadvantages to processors from not increasing imports were minimal. When those circumstances changed in 1996, and the incentive to import increased, voluntary assurances gave way to importation of lower priced pigmeat and the rewriting of domestic contracts at lower prices: This was the policy change by key firms with vertically integrated interests in production, processing and retailing.

After the event what is surprising is not that the voluntary agreement collapsed but that it held for so long. In that sense the 1997-98 crisis was a market inevitability with much in common with other open market industries rather than an exceptional circumstance, as indicated in my paper.

A question was raised about what to do with people who continue to promulgate other explanations for the low prices and on-going difficulties of the pig industry; in particular continuing to cite domestic overproduction as the cause of the price problem. It may be tempting to think that they should suffer a similar fate to that of heretics in medieval times when burning at the stake was a common punishment for politically incorrect beliefs!

If such views are to be taken seriously in the wake of the PC report then further reference to the facts may help. The PC concluded that "increased imports were the dominant cause of low pig prices and reduced profitability" (p.xxiii). This conclusion did not exclude a contribution by other factors. The PC report specifically examined a range explanations, other than imports, for the collapse in pig prices (pp 48-55).

The role of domestic production was considered on page 50 of the report. The PC engaged independent research by the Institute for Research into International Competitiveness (IRIC), which led to the observation that

"there has not been domestic overproduction compared with the past 5 to 6 years."

Nonetheless the PC acknowledged that "a supply overhang" of stocks from earlier periods exacerbated the price problems of early 1998:

"...when combined with the increased imports, it contributed to the price fall."

Importantly the PC viewed the production responses of producers in the past several years as rational under the circumstances:

"..given that producers appear to respond principally to price signals, their investment and production decisions in late 1996 and 1997 probably were not unreasonable."

This would suggest that any on-going criticism of the industry through this period is more political overhang from the 1998 Federal election than valid economic analysis.

Foot Notes

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

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