

Senate Select Committee on Australia's Food Processing Sector 9 (received 30/1/12)

Question taken on notice taken on 13th December 2011: Can you give us a sense of the value of processing in Australia over, say, the last five years and also the value of imported processed products? (note that questions two and three were in effect asking for the same information).

Key points

- There are two types of processing for pork products in Australia which are referred to as:
 - Primary processing – this is the value adding done at the abattoir and boning room level. The outputs from this type of processing are either dressed carcasses (to go to butchers for example), primal cuts (parts of the carcass to go to butchers/ retailers or for secondary processing) or retail ready cuts (to go directly to retail shelves). Primary processing applies only to domestically produced pork;
 - Secondary processing – this is where primal cuts are taken for further value adding through cooking, curing, fermenting, brining and/ or slicing resulting in products such as ham, bacon, salamis, other types of smallgoods and sausages for cooking. Secondary processing can occur with either domestically produced or imported pork;
- Primary processing for pork products accounted for some \$350 million in added value for the 2010/ 11 year in Australia
- Secondary processing for pork products accounted for some \$1280 million in added value for the 2010/ 11 year in Australia of which around \$680 million was applied to imported pork
- Pork products imported in a processed state were valued at \$6 million in the 2010/ 11 year. This differs to the figure provided in the earlier APL submission (sourced from the ABS) due to very little of the processed product included in the statistics being manufactured from pork
- The five year (or longer term) trend of primary processing value add is likely to be proportional to total pig slaughters in Australia for these years. Pig slaughters have decreased in Australia by some 10-15% since 2007 due to import competition.
- The five year (or longer term) trend of secondary processing value add is likely to be proportional to total sausage and smallgoods consumption in Australia (since any fewer domestic pigs available are likely to be replaced by imports). Consumption of smallgoods in Australia has been relatively flat over the past five years on a per capita basis.
- The proportion of secondary processing value add that is being applied to imports is likely to be related to the total volume of imports for these years. Over the past five years, import volumes have almost doubled from over 70,000 tonnes in 2006 to slightly under 140,000 tonnes in 2011.

Details

The following table shows a summarised version of the Australian pork value chain (including all pork products consumed except those imported in a processed state). The information is split between fresh pork (sold as pork chops, pork roast, steaks, sausages for cooking, etc) and processed pork (ham, salami, bacon and other types of smallgoods).

The information has also been split between what is referred to as primary and secondary processing.

Primary processing is the processing that occurs in the abattoir and the boning rooms. It includes the costs of slaughter and dressing of carcasses as well as the splitting and cutting up of carcasses in boning rooms. This type of value add only applies to pork sourced from domestic pigs. Typically, this type of processing is supplying the retail sector, the food service sector and the secondary processing sector with a range of chilled or frozen pork products (whole carcasses, primal cuts or shelf ready cuts).

Secondary processing may consist of cooking, curing, smoking, brining, fermenting, slicing and packaging of processed pork products. The outputs of secondary processing are generally referred to as pork smallgoods and consist of products such as bacon, ham, salamis and other types of pre-cooked or raw sausages.

The total value of processing for pork products in Australia for 2011 was \$1.624 billion, of which \$345 million was for primary processing and \$1.279 billion for secondary processing. That proportion applying to domestically produced pork was \$946 million compared to \$678 million for imported pork.

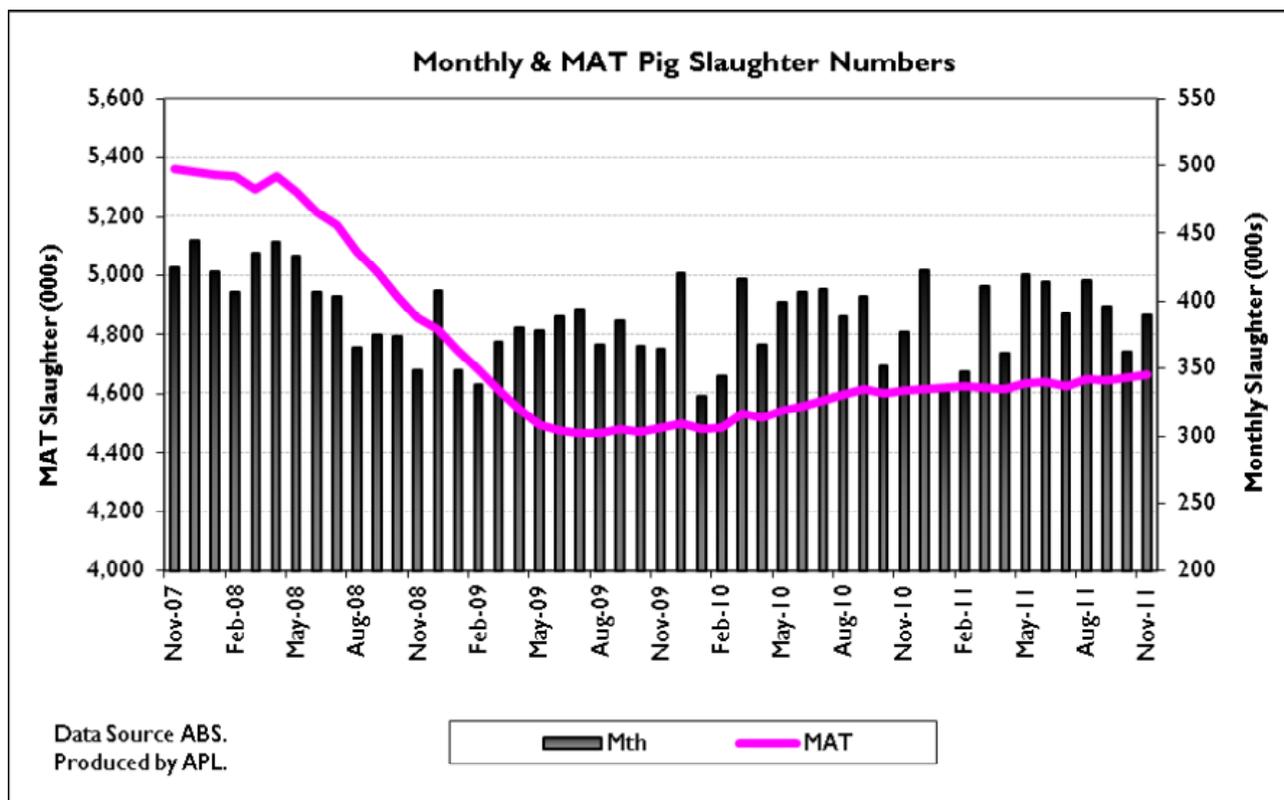
Table I. Pork value chain from producer/ import supplier to consumer level (approximate – 2010/ 11). Various sources incl. APL, Nielsen Homescan, ABS

	Unit	Fresh Pork	Processed Pork
Consumer spend - pork products at retail level	(\$m)	\$ 1,490	\$ 2,795
Retailers margin	(%)	29.9%	49.3%
	(\$m)	\$ 343	\$ 922
Wholesale revenue	(\$m)	\$ 1,147	\$ 1,873
Secondary processor added value - total	(\$m)	\$ 282	\$ 997
Import volume proportion	(%)	0%	68%
Secondary processor added value - imports	(\$m)	\$ -	\$ 678
Australian volume proportion	(%)	100%	32%
Secondary processor added value - Australian	(\$m)	\$ 282	\$ 319
Secondary processor meat costs - total	(\$m)	\$ 865	\$ 876
Secondary processor meat costs - imports	(\$m)	\$ -	\$ 444
Secondary processor meat costs - Australian	(\$m)	\$ 865	\$ 433
Primary processing added value	(\$m)	\$ 230	\$ 115
	(\$/ kg carcass wt.)	\$1.00	\$1.00
Average pig carcass weight	(kg)	73.8	73.8
Australian pigs	(no.)	3,109,993	1,554,763
Average pig price 2011	(\$/ kg carcass wt.)	\$2.77	\$2.77
Australian pig producer revenue	(\$m)	\$ 636	\$ 318
Foreign pork supplier revenue	(\$m)	\$ -	\$ 444

Table I gives a snapshot of the pork processing value chain for one year rather than the five year trends requested. We do not have comparable figures applying to other years prior to 2011 but some general assumption can be made as to how they are changing over time.

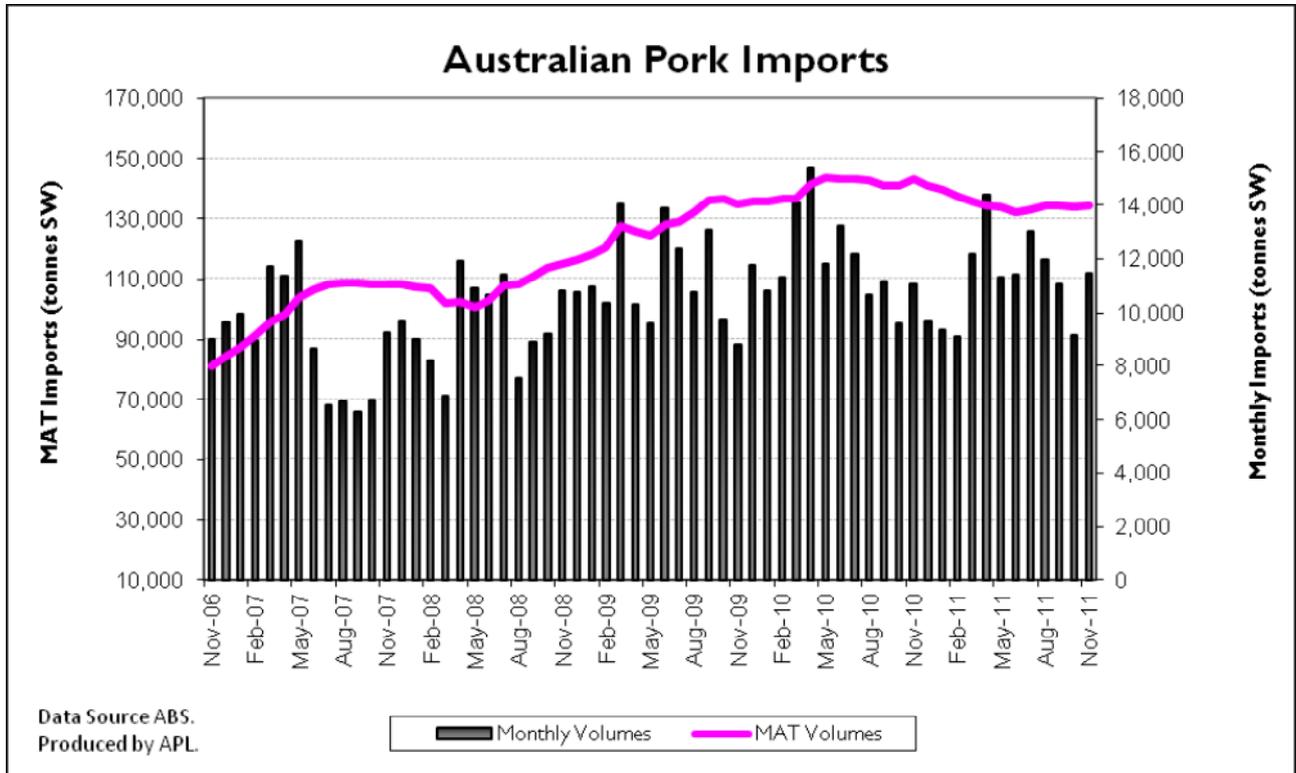
Total primary processing added value for example is likely to be proportional to the total number of pigs being slaughtered annually in Australia. A profitability crisis in 2007/ 08 largely caused by an influx of cheap imports, led to a reduction in domestic slaughters at the time by around 15%, as shown in figure 1 below.

Figure 1. Monthly and Moving Annual Total Pig Slaughter Numbers – Australia (ABS)



The split of secondary processing value add is defined by the proportion of imported pork versus domestic pork being used in this sector. As shown in figure 2 below, imported pork volumes have grown significantly over the past five years from around 80,000 tonnes in 2006 to around 130,000 tonnes at the end of 2011. There is a significant future threat that these imported pork volumes could be imported more and more over time as pre-processed, i.e. processed overseas and then imported.

Figure 2. Monthly and Moving Annual Total Pork Import Volumes (ABS)



Whilst fresh pork consumption is increasing slowly in Australia on a per capita basis, smallgoods consumption is not. The majority of secondary processing value adding being involved in the smallgoods sector, this means that this value is remaining relatively flat. An increase in the importation of already processed smallgoods would mean of course that this figure would decrease.

At present, it seems that only around \$6 million worth of already processed pork products are being imported per annum. This figure differs to that given in a previous APL submission due to an error in interpretation of the ABS numbers.

**Australian Pork Limited / Marketing
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