Senate Select Committee on Australia's Food Processing Sector (received 24/1/12)

Question taken on notice taken on 13th December 2011: has the Australian pork industry looked at whether competitor countries exporting pork to Australia are breaching WTO rules through subsidies to their domestic sector?

Key points

- Gaining comprehensive information about subsidies in other countries is a complex process, with often inconclusive results. The significant resources required to collect and collate data on subsidies in overseas economies makes maintaining current information cost prohibitive for APL;
- The most recent information APL has available is contained in an ITS Global report commissioned in 2006 which identified several areas of support to foreign pork sectors, including direct support and support to associated sectors (such as feed-grains);
- It is clear that foreign competitors enjoy significant levels of support;
- When exported to Australia, foreign subsidised pork effectively lowers the price in the Australian market, impacting Australian producers, and;
- As the support identified is *de minimis* under WTO rules, there is currently no requirement to reduce payments.

Context

WTO member countries that provide support to domestic agricultural producers are required to notify certain kinds of support, the measure of which is referred to as the Aggregate Measure of Support (AMS). The OECD also collects data on support, but only on its member countries. The OECD's Producer Support Estimate (PSE) shows not only budgetary payments that appear in government accounts (including direct subsidies), but also the price gap for farm goods between domestic and world markets (market price support), as measured at a country's border. High PSE levels place Australia at a competitive disadvantage when trying to access export markets. The Consumer Support Estimate (CSE) is the annual monetary transfers to consumers from policy measures that maintain domestic prices.

2 None of these measures sufficiently account for all forms of subsidy that Australian industry would consider beneficial to the competitor industry, and which have an impact on the final product price. The complex nature of subsidies, and their downstream effect (such as land taxation concessions in the grains industry creating lower feed prices downstream in the pork industry) is difficult to measure. The statistics reported under the WTO and OECD indices provide a basic, but by no means comprehensive snapshot of subsidies.

3 There is distinct lack of a level playing field, not just in relation to the level of financial support provided to commodities and producers by some countries (both directly and indirectly), but also from the growing domestic regulatory and compliance requirements that impact Australian producers' costs of production. This in turn affects the Australian pork industry's competitiveness in export markets and also in those sectors of the domestic market which compete with imports.

4 Gaining comprehensive information about subsidies in other countries is a complex process, with often inconclusive results. The significant resources required to collect and collate data on subsidies in overseas economies makes maintaining current information cost prohibitive. The most recent information APL has available is contained in an ITS Global report[1] commissioned in 2006 as a comprehensive trade review.

ITS Global report

5 APL undertook some analysis of subsidies in competitor countries operating in the Australian market through an ITS Global report. Part of this report analysed subsidies to the pork sector in three major pork exporting countries; the United States, Canada and the EU (specifically Denmark) in addition to Brazil and Thailand.

6 The ITS Global report identified several areas of support provided to the pork sector in the countries identified. These are:

[1] ITS Global: *APL International Trade Review*, June 2006.

- The EU, as a whole, maintains the highest levels of support for its pig meat producers, followed by Canada and the US. The PSE for pig meat in the EU in 2004 was 24 percent, or three times that of the next highest, Canada, at 8 percent. Support in the EU per ton of pig meat was approximately AUD554, against AUD161 for Canada and AUD80 for the United States.
- The WTO's Aggregate Measurement of Support (AMS - the annual level of support, expressed in monetary terms, provided for an agricultural product in favour of the producers of the basic agricultural product or non-product-specific support provided in favour of agricultural producers in general) information for pig meat broadly mirrors the PSE data. The EU product-specific AMS for pig meat was approximately AUD55.8 million in 2001 and AUD25.7 for Canada in the same year. In all the markets covered, the pig meat specific AMS most recently reported is either zero or *de minimis,* i.e within the allowable threshold. Only Canada and the EU have notified support specific to pig meat production. As this support is *de minimis* in both cases, neither government is required to reduce these payments under current WTO rules.
- The figures on support for grains show that support for wheat is highest in the EU (PSE of 39 percent in 2004) and the US (PSE of 32 percent in 2004). These high levels of support are not always reflected in figures for product-specific AMS taken as a percentage of production value. This has to do with the way the product-specific AMS is recognised under the Uruguay Round Agreement on Agriculture[2] and the different ways support is provided in the major markets.
- In the case of the EU, product-specific support for barley in 2001 represented around 33 percent of production value, for maize around 9 percent of production value and for wheat and triticale, around 8.5. These figures are relatively high.
- In the US, however, product specific support for barley in 2001 represented around 3 percent of production value, for maize around 6.7 percent, for wheat and triticale around 3.4 percent. The discrepancy between the US PSE for wheat (32 percent in 2004) and the product specific AMS for wheat (around 8.5 percent of production value) reflects the way support is provided in the US market, where although protection of grain producers (especially wheat producers) is very high, the use of measures recognised as "product specific support," under the URAA rules, is limited. The discrepancy between the AMS and the PSE for grains in the US may or may not mean that US support is less trade distorting than support in the EU. Alternatively, it may merely reflect the structure of support in the US Farm Bill[3] (U.S. Farm Security and Rural Investment Act of 2002).

Country specific support

7 Summaries of the various support mechanisms for the three largest economies exporting pork to the Australian market follow.

Denmark

- Support for Danish pig meat production is recorded to be highest of any of the markets examined. Supports to EU pig meat producers which may be used, are predominantly in the form of domestic price support mechanisms including export refunds and storage subsidies to maintain domestic prices, the result of high tariffs on imports (equivalent to up to 106% in the EU case). This enables the Danish pig meat industry to cross-subsidise from domestic markets to export markets such as Australia, a process of price-discrimination that is facilitated by the dominant market position of the Danish pig meat processor. The result is that the already very high PSE (over 20 percent of value) probably understates the level of support provided to Danish producers by various EU trade barriers and subsidies.
- The breakdown of Danish exports (which make it difficult to compare domestic and external prices) and the structure of the Danish pig meat industry make it difficult to come to conclusions about the impact of EU market barriers on prices. Equally, sub-national programmes are also likely to be understated in the PSE figure.

Canada

- Support for pig meat production in Canada is higher than any market examined other than the EU. While the coverage of the PSE for pig meat is superior to that of the EU and the US, research

[2] Retrieved 23/01/12, available at: http://www.wto.org/english/docs_e/legal_e/14-ag_01_e.htm
[3] Retrieved 23/01/12, available at: http://www.usda.gov/farmbill

suggests it may understate support by some percentage points.

- Support in Canada is provided at both national and provincial/territorial levels. The main policy development in recent years has been the full implementation in 2004 of the Agriculture Policy Framework and related reforms to major agricultural support programmes, notably the introduction of the Canadian Agriculture Income Stabilisation programme[4]. The program compares production margins (net income in the current year) to a reference margin (the average of recent production margins). If the production margin falls below 85 percent of the reference margin, an Agricultural Price Stability payment is triggered.
- There are a number of federal and provincial level support programmes in Canada, including; the **Hog Farm Transition Programme**[5], introduced in 2010 as a federally funded C$75 million initiative designed to assist Canadian pig producers exit a market faced with low pork prices, high feed grain costs and a strong Canadian dollar. The fund was allocated to 455 producers. The **Hog Industry Loan Loss Reserve Program**[6] **was a federally backed mechanism providing** long term loans to pork producers. 263 loans were made to producers for a total of C$408.1 million representing 20-23% of Canadian production. The **Food Safety and Tracing Initiative**[7] is a federal/provincial funding mechanism providing cost share funding to individual businesses and producers to support the implementation or improvement of food safety or traceability systems for producers and processors.

The United States

- The key legislation governing support for agricultural production in the United States is the Farm Bill 2002. Signed into law in May 2002, the Act provides a legal framework for U.S. farm programmes through 2007. The Act extended many of the programmes under its predecessor, the Federal Agriculture Improvement and Reform Act of 1996. The Farm Bill 2002 also introduced countercyclical payments to provide farm income safety net. The U.S. Government also operates farm programmes whose legislative authorization is separate from the 2002 Farm Act. The most significant of these is subsidization of crop insurance, most recently under the Agricultural and Risk Protection Act of 2000[8].
- The structure of support under the US Farm Bill means that levels of product-specific support for most products, including pig meat, are low, as recorded under the URAA rules. This does not mean that producers are not benefiting from support. In fact, support in the US is higher than the levels suggested by the PSE. The coverage of sub-national tax incentives and concessions would arguably raise the PSE by up to 11 percentage points, by some estimates, from 4 percent to 15.

Australian Pork Limited / Policy
January 2012

[4] Retrieved 23/01/12, available at: http://www.agricorp.com/SiteCollectionDocuments/AgriStability-Handbook-en.pdf
[5] Retrieved 23/01/12, available at: http://www.cpc-ccp.com/program-farm-transition-e.php
[6] Retrieved 23/01/12, available at: http://www.cpc-ccp.com/program-long-term-loan-e.php
[7] Retrieved 23/01/12, available at: http://www.ontariopork.on.ca/Programs/FSTI.aspx
[8] Zahniser, S, E. Young, J. Wainio (2005). *Recent Agricultural Policy Reforms in North America*. Economic Research Service, United States Department of Agriculture. Accessed at www.ers.usda.gov/Publications/WRS0503, on 15/05/06, in: ITS Global: *APL International Trade Review*, June 2006.