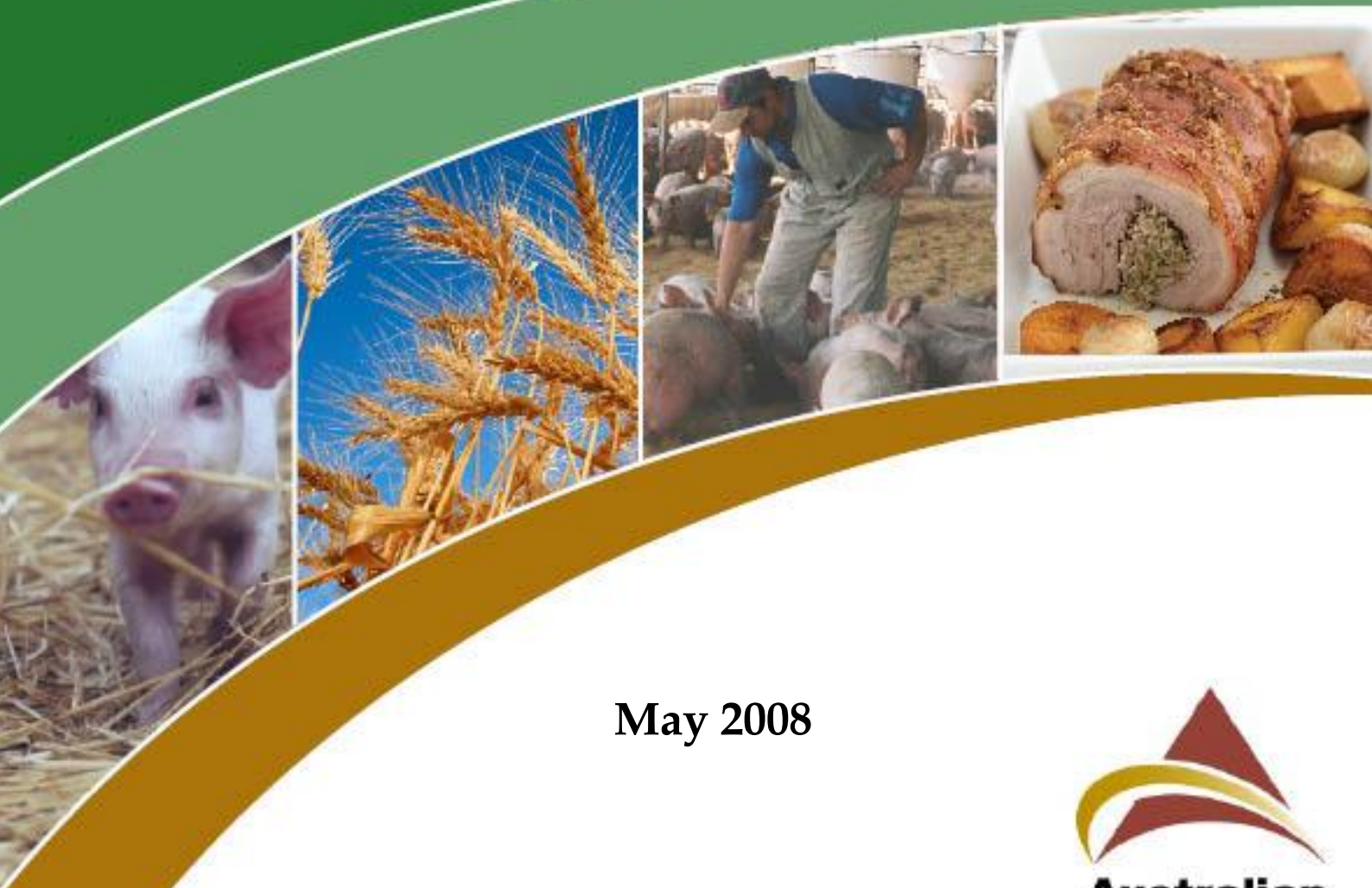


AUSTRALIAN PORK LIMITED

**Submission to the Department of Foreign
Affairs and Trade (DFAT):**

**PART 2 – Export Market Development
Grants (EMDG) Scheme**

May 2008



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1. Introduction

APL undertakes extensive generic promotion of Australian pork exports and has been a past recipient of the Export Market Development Grant (EMDG), assisting the Australian pork industry to build exports, ensure competitiveness, and deliver significant benefits to the Australian economy.

APL does not export in its own right but rather facilitates third parties to do so more effectively. Through this process real financial benefits are passed down through the pork supply chain. APL is driven to increase the financial viability of the pork industry supply chain as a whole; from farmers, processors and exporters. In particular, APL's export marketing and development role exists to provide services to the industry that:

- Build awareness in target markets of Australia as a source of high quality fresh pork;
- Assist exporters in forging strategic supply alliances with key market stakeholders such as supermarket chains; and
- Support business development through active collaboration with in-market Government agencies.

a) The Singapore Market: An Australian pork industry success story

Singapore is the Australian pork industry's greatest success, with marketing programs funded in part by the EMDG¹, contributing to a high awareness of Australian pork. Research has consistently reported over 85 per cent unprompted recall by survey respondents. Australian pork now dominates supermarket shelves in Singapore (approximately 90 per cent market share), and Singapore Government agencies such as AVA and NEA frequently consult with APL on matters of food safety, supply chain improvements, and sustainability of supply.

These outcomes have assisted all pork exporters to Singapore develop more robust business links, and provided stability of price and supply to help foster business growth. Stable pricing and demand consistency in exports helps stabilize local prices in Australia, and the benefits flow back to producers and the industry as a whole.

Export promotions are a key element of APL's strategic activities and are therefore carefully scrutinised by the APL for rigor in planning and implementation. APL has a five year Strategic Plan and yearly Annual Operating Plans that direct and govern all its activities, including export development strategies and business plans.

¹ APL for this financial year received \$150,000 from the EMDG, all of which was used to assist APL's marketing efforts in Singapore.

In developing strategies and conducting relevant market research, APL has engaged the services of:

- Food Advantage Consulting Services
- Market Probe Precision Research (MPPR) Singapore
- The Research House – Singapore
- Trade data purchased

These services have aided the understanding of target export markets, defined strategic priorities and measured the efficacy of implemented programs.

Past export promotional activities have helped to drive overseas demand for Australian pork to a total Moving Annual Total (MAT) value of \$157 million in 2006/07, an increase of over 280 per cent since 1997/98. In volume terms, Australian pork exports have increased from 12,170 tonnes Shipped Weight (SW) to 48,017 tonnes SW in the same period. APL export promotion programs fuelling such growth include the Singapore AIRPORK brand development.

In APL's Export Development Program, an international market analysis for Singapore has been developed focusing on consumer preferences, commercially sustainable price point management, improved consumer preference for Australian pork, a market repositioning of Australian pork in Singapore's wet markets.

b) APL Export Development Program

Besides Singapore, APL's Export Development Program has provided an assessment of the likely commercial benefits that exports can bring to the industry and implement initiatives to achieve this in other export markets. It has seven key aspects that determine:

1. Priority markets
2. Proposed initiatives (what needs to be done)
3. Implementation plan (how and when this should be done)
4. Who will undertake the proposed initiatives
5. Resources and skills required and their development
6. Funding – sources and process for application
7. Targeted value growth and return on proposed investments

Other countries of interest to APL include Japan, Korea, Hong Kong and Taiwan, export opportunities in Europe to offset Australian imports of legs, North America to offset Australian imports of middles, and New Zealand who remains one of Australia's largest export destination.

Continued government assistance via the EMDG program, as well as high-level coordination, co-investment and strategic leadership provided by the Australian government is essential given the rationale as provided in Part I of this submission; to boost Australian exports to meet growing demand for food supply, food security and market liberalisation.

2. Effectiveness of the EMDG Scheme

a) Increasing the number of businesses that develop into exporters?

The objective of APL's export strategy is to increase the volume and value of exports ahead of exchange rate driven variation. APL does this by working with the existing major industry participants, rather than specifically endeavouring to introduce new or additional businesses.

b) Increasing the value of exports by grant recipients?

Pork exports have three primary customer countries, Singapore, Japan and New Zealand. Over the last two years the sustained appreciation of the Australian dollar (*refer to Part I: 5. APL Export Strategy*) has reduced the competitiveness of Australian pork in each of these markets. This increase has caused the total value of pork exports to fall over the past two years.

Singapore is APL's key market and has benefited from EMDG funded in-market representation and marketing activity. Singapore also imports fresh product from the Indonesia and frozen pork from mainly Brazil and others at very low prices. Pricing pressure is expected to continue.

EMDG funding has enabled the Australian pork industry to create relationships and trading alliances between commercial entities in both Australia and Singapore. These relationships and activities have contributed to sales in Singapore remaining relatively stable despite continued high prices driven by the exchange rate. Due to the entrenched "Australian" branding and quality perceptions of Australian product, we do not expect to lose significant volumes to cheaper competitors.

c) Increasing the number of businesses that achieve sustainability in export markets and generate additional exports?

The Australian pork industry is currently experiencing an extremely difficult profit squeeze, with downward pressure on farm-gate prices and significantly increased feed grain costs. In Singapore where EMDG funds have been invested, the Australian pork industry extracts a more than 25 per cent higher premium per kilogram than it does on average in the Australian spot market. The EMDG has indubitably contributed to the sustainability of the Singapore export market, a model we plan to replicate elsewhere, tripling international business.

Conversely, the withdrawal or dilution of EMDG's would seriously endanger the supply chain servicing export markets, if it is not maintained, the Australian industry will face:

- Greater exposure to competition based solely on price;
- Quality standards for export product that falls short of the market's requirements or competitor alternatives;
- Lower margins for exporters and more price volatility - particularly with Singapore; and
- Poor profitability from exports leads to increased price pressure on the domestic market, consequent negative impact on returns and potential further contraction of the industry.

d) Developing an export culture?

Understanding the benefits gained through export markets, APL actively reviews and searches for new overseas opportunities of demand and value generation. Driven by the pressure of globalisation, food safety, technology developments and trade reforms, the Australian pork industry has undergone a profound structural change over the last ten years. Until the mid 1990's the focus of the industry was almost solely on the domestic market since international competitiveness was not critical to its profitability. Today the picture is far different. Despite harsh climatic conditions and relative isolation, strong global competition in the last six years has widened the Australian pork industry's focus from the domestic market to successfully capture and build export markets.

From a base of under 4.2 per cent in 1998, exports now accounted for 15.8 per cent of national pork production in 2007. As an example of the increased international focus on markets, the Western Australian industry now relies on export for a significant proportion of that state's production. With this has been a fundamental change to the export culture of

that state. The Western Australian pig meat exporters consider Singapore and other Asian markets to be key markets, and easier geographically to deliver product than the Australian eastern seaboard states. Accordingly, export is seen as fundamental to the on-going viability of that state’s industry and for future growth.

The following graph illustrates the reliance in WA on export volume:

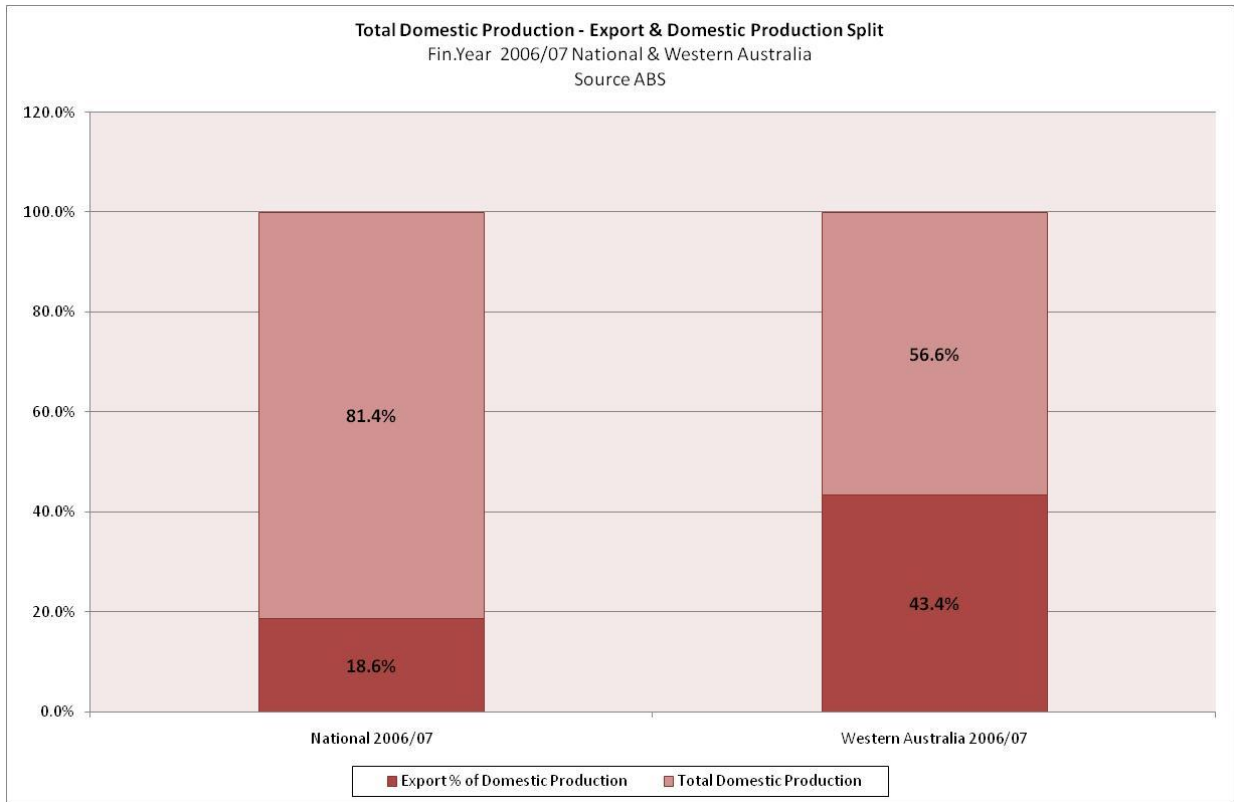


Figure 1 - Total Domestic Production - Export & Domestic Production Split; 2006/7 National & Western Australia

While WA perhaps has become a leading export state due to its relative separation from the eastern Australian domestic markets, it serves as an example of the general trend with other eastern Australian businesses, which are increasingly looking to export to provide both additional growth and also a more robust business model to balance demand across additional markets.

3. EMDG Improvements

APL's experience has found the scheme to be a smooth and transparent procedure.

4. EMDG Extensions

The EMDG is very important to the continuing export development of the pork industry. This is true for both for the existing developed markets such as Singapore where conditions continue to challenge current volumes and for the exploration and development of new market opportunities. APL would recommend continuance of the scheme to assist with the industry's sustainability. Export markets assist to balance the fluctuations in volume in the domestic market. They have also proven to be more lucrative in some instances than the domestic market.

The loss of farmers from the industry has meant that slaughters and future slaughters numbers are down which in turn negatively impacts APL funding and spend across marketing activities both domestically and internationally. In these circumstances, the EMDG provides a valuable source of additional funding at a critical time for the industry and APL sees the EMDG scheme as critical to improving Australian pork export performance now and in the long-term.

5. Alternative Approaches

An additional component of the scheme could include market research of overseas market opportunities e.g. ground level investigation, market information data and analysis. These exploratory activities are essential to future development of new markets but are difficult to show immediate returns to support applications.

Also, any development program would involve a long-term investment and approach. This requires an assurance of funding and commitment over extended annual periods. A long-term EMDG period would assist greatly in maintaining industry commitment to achieve break-through in such significant markets as Japan, Hong Kong and Korea.

While the EMDG scheme seeks to encourage exports, it could be improved. Currently the EMDG split payment system works by refunding monies already spent. At the time an entity chooses to apply, they have reasonable certainty in the assessment that only the first 50% payment of their claim up to a ceiling of \$70,000 will be reimbursed. Depending on the number of applicants this can mean that it is possible that only 50% of the claim will be the total payment. This in reality means that an entity must decide whether it is to continue to

commit a level of investment in growing a targeted export market before knowing the value of the second payment.

If the company determines it is a good business decision to invest in export driven growth, they clearly see a potential return and would invest that money anyway. However the current EMDG system does not encourage investment and could be adding significantly more value if it offered certainty of payment tied to an agreed progress benchmark is achieved (e.g. a distributor is appointed, the first export sales is made or the degree of benefit that will have accrued to the Australian economy such as maintaining business in an exchange rate unfriendly international trade environment). By taking a "venture capitalist" type approach with agreed milestone for achievement, the prospective exporter has certainty of help and knows what they must achieve to receive a grant.

Export market development is ambiguous: in many ways it is the same as developing new products, you need to explore a number of markets, to find one that is commercially viable. Another improvement is to assess an applicant's program of development, e.g. we'll investigate five countries and commit to entering one of them. This requires a high level of investment (hence the grant) but also provides prospective exporters with a portfolio of options to find a success. Again here the venture capitalist approach of "achieve this goal to get the grant" guarantees a return to the taxpayer (for companies the risk of export development would be lower, thereby improving the risk: return assessment.)

Finally the EMDG is retrospective in its success evaluation. Export development is a long term activity, evaluating on past performance that takes little account of the sustainability or potential of export opportunities. It would be preferable to require applicants to demonstrate opportunity value and sustainability. This would allow the scheme to encourage companies to focus on what is possible with a future orientation, rather than focussing on what they have already achieved, which by definition must be commercially attractive otherwise a company would cease that international business.