

Beef Levy Review 2009



Final report of the
Beef Marketing Funding Committee





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1. Letter from the Chair

Right now, the Australian beef industry is facing perhaps some of its toughest challenges.

Low livestock prices are hurting all producers. Lingering effects of BSE in our most valuable export markets, the impact of long-running drought on supply and costs, high grain and fertiliser prices, and an oscillating Australian dollar are all affecting our industry. We've enjoyed the windfall of the exclusion of US beef from our key North Asian markets, but we've also suffered the challenge from Brazil with its advantageous currency position for much of the last decade. And now we're challenged by the contraction of the credit necessary for global trade, by the financial crisis being felt in all key markets and by the prospect of greater environmental regulation.

On the positive side, demand for Australian beef, both at home and in export, has continued to be strong, aided by improving consumer appeal and the growing reputation of the Australian industry as a safe and reliable supplier of quality beef. While production issues and costs will always be a challenge for producers, the Australian industry appears to be well positioned to benefit as the world emerges from this recession.

The Australian industry will never succeed in the global market by relying on cost competitiveness alone. We have higher labour costs, higher standards, greater expectations from the community and larger distances to our main export markets than most of our competitors. Australia can only succeed by out-performing competitors on quality and consistency, on reassurance of safety, on reliability of supply, on consumer appeal, and on overall value for money.

So I was pleased to accept an invitation to chair a committee of industry leaders to review just how well the programs we fund are doing that, and to consider the future program and funding needs for marketing Australian beef.

The Beef Marketing Funding Committee, comprising 14 people from levy paying enterprises across Australia, met on six occasions, and considered the following questions:

- a) Has the 2006 increase of \$1.50 per head in the beef marketing levy delivered benefits to our industry?
- b) What have been the major influences on livestock prices since 2006?
- c) What are the key challenges and opportunities likely to face the industry over the next five years?
- d) What would the marketing program scenarios be under a range of funding levels?
- e) What is the appropriate level of spending on these programs?

To assist us in answering these questions, we commissioned independent expert analyses from Warwick Yates and Associates and from the Centre for International Economics. We invited and received insightful submissions from levy payers, large and small. We also sought information from and challenged the staff of Meat & Livestock Australia.

I am pleased now to present this report of our deliberations and recommendations, and sincerely thank the members of the Committee for their time and contributions to this important task.

Peter Hughes
Chair Beef Marketing Funding Committee
May 2009





2. The Beef Marketing Funding Committee

The Beef Marketing Funding Committee (the Committee) met on six occasions, sighting information and data provided by MLA and other industry sources. We also canvassed the views of the broader beef levy paying community via a call for submissions nationally and canvassing directly many of the largest levy payers for their views on matters pertinent to the review.

We examined the information presented, considered the implications and opportunities, and made recommendations for the Australian beef industry.

Beef Marketing Funding Committee members

Mr Peter Hughes	Cattle producer, North Queensland (Chair)
Mr Don Heatley	Cattle producer, North Queensland Chair, Meat & Livestock Australia
Mr Jim Cudmore	Grain-fed cattle producer, South-East Queensland President, Australian Lot Feeders' Association
Mr Peter Hall	Cattle producer, North Queensland Cattle Council of Australia
Mr Bill Bray	Cattle producer, Victoria Immediate Past President, Cattle Council of Australia
Mr Mike Introvigne	Cattle producer, southern Western Australia
Ms Jen Munro	Cattle producer, north-west New South Wales
Mr Ian McCamley	Cattle producer, Central Queensland
Mr Warren Barnett	Grain-fed cattle producer, southern New South Wales Vice President, Australian Lot Feeders' Association
Mr Brad Teys	CEO, Teys Bros Pty Ltd
Mr Terry Nolan	Director, Nolan Meats Pty Ltd Chair, Australian Meat Industry Council
Mr Michael Carroll	Cattle producer, western Victoria Director, Meat & Livestock Australia
Mr Don McDonald	Cattle producer, North Queensland AM, OBE
Mr Gary Tapscott	Commercial Manager Sheep & Cattle Operations, Elders Director, Australian Livestock Exporters Council and President, Australian Livestock & Property Agents

Terms of reference

- Provide a review of the current situation for marketing Australian beef, including an assessment of the challenges and opportunities facing the industry in 2010.
- Oversee a review of the use of the MLA beef marketing levy since 1 January 2006, with particular reference to the additional \$1.50 received from this date.
- Recommend the need for the current or modified beef marketing levy to be allocated to the industry.
- Indicate the level of marketing funds required and to what areas they should be allocated.
- Develop and oversee the implementation and communication strategies for the adoption of the recommendations arising from the review.

In addressing these terms of reference, we determined that the review should consider a period of five years (from 2011 to 2015) – as per the review in 2005 of the Beef Industry Funding Steering Committee – and that the Committee would base its funding recommendations on ‘reasonable’ industry needs during this time.

While we examined individual markets and their program and funding needs, the allocations proposed in this report are indicative only, as:

- each allocation will require detailed costing and justifications;
- each allocation will require the proper and normal approvals of peak councils and the MLA Board; and
- funds may be moved between markets and programs as issues and opportunities arise, and as programs evolve.

3. Beef Levy Review 2009



Why was the review conducted?

The review was conducted to evaluate the effectiveness of the increased marketing component of the cattle transaction levy since 2006, and also to determine the appropriate level of funding for beef marketing and trade development to ensure Australia's beef industry is competitively positioned.

What was the process?

An independent committee was formed under the chairmanship of Queensland cattle producer Peter Hughes. The Committee sought submissions from the industry and MLA, and also commissioned independent analyses on the benefits to industry from previous marketing expenditure.

What were the Committee's findings?

- a) The additional marketing levy has delivered five times the investment back to producers.
- b) The major impacts on livestock prices since 2006 have been high exchange rates and high grain prices until late 2008, and now credit restrictions on global trade and the collapse in demand for co-products. Without these impacts, livestock prices would be at or near record levels.
- c) Our industry faces critical challenges, such as mounting attacks on our environmental integrity and increased competition in our major markets; as well as valuable opportunities, such as our world leading systems in product quality, safety and industry integrity, which stand us in good stead to grow existing and capture new markets.
- d) The industry must continue to invest in a broad range of programs to consolidate its position in beef markets and address the challenges and opportunities that lie before it.
- e) The \$5 levy is a modest but appropriate investment in the future of the industry.

What does the Committee recommend?

1. That the current \$5 per head cattle transaction levy rate be retained.
2. That a minimum return on investment to producers be set at three times the overall marketing levy as the performance yardstick in future reviews.
3. That future reviews of the levy be undertaken as a result of industry need, triggered by the peak councils, and not according to a pre-determined timeframe.

How do producers have a say?

The findings and recommendations of this review will now be the subject of industry debate in forums across the country leading up to a vote of all levy payers to be conducted in conjunction with MLA's AGM in November 2009.


Details of the 2009 beef levy review, as well as the full report of the Beef Marketing Funding Committee and related documents, are available at www.mla.com.au/beeflevyreview



4. Key findings and recommendations



In answering the questions put to the Beef Marketing Funding Committee, and having considered all the material, reports and information provided during our enquiries, we put forward the following findings and recommendations to Australia's beef levy payers.



a) Has the 2006 increase of \$1.50 per head in the beef marketing levy delivered benefits to our industry?


The Committee concludes that the additional marketing levy has delivered five times the investment back to producers.

The independent review conducted for the Committee by Warwick Yates and Associates concluded that the \$1.50 increase to the cattle transaction levy for beef marketing since 2006 has been invested wisely and is returning significant financial benefits to the Australian beef industry.

Specifically, the increase in beef marketing investment has made important contributions towards:

- helping Australia capitalise on the absence of our major beef competitor (the US) in Japan and Korea, and positioning us to compete with the US as they return;
- helping maintain very high levels of consumer expenditure on beef within the domestic market in the face of calls to reduce red meat consumption on environmental and health grounds;
- establishing offices and personnel in Russia and China to support and help position Australian beef within these emerging markets;
- strengthening Australia's livestock export market position, particularly within Indonesia;
- encouraging greater exporter participation and investment in marketing programs through approved partnership programs, known as ICAs; and
- enhancing the evolution of the Australian industry from the status of a commodity supplier to that of a trusted source of quality beef products.

The analysis by Warwick Yates and Associates, supported by the Centre for International Economics (CIE) Global Meat Industry Model, calculated that the additional \$1.50 is returning between three and eight times the levy payer investment, with the most likely return being five times.



b) What have been the major influences on livestock prices since 2006?

The Committee concludes that the major impacts on livestock prices since 2006 have been high exchange rates and high grain prices until late 2008, and now credit restrictions on global trade and the collapse in demand for co-products. Without these impacts, livestock prices would be at or near record levels.

With Australia's competitiveness in global beef markets impacted significantly by the very high Australian dollar (A\$) in 2007-08, and now with the global financial crisis disrupting international trade, the marketing component of the \$5 cattle transaction levy is helping cushion Australian livestock prices from the worst of these negative forces.

Livestock prices have fallen by around 11% from the levels recorded in 2005, due to three very significant factors that more than negated the positive impact of the industry's marketing investment:

- i. In an independent analysis for the Committee, the CIE concluded that the biggest single issue impacting on Australian cattle prices over the period 2005–2008 was the very high A\$. In 2008, if the appreciation of the A\$ had not occurred, cattle prices would have averaged 16% more than those observed.
- ii. The dramatic fall in the A\$ at the end of 2008, together with the global financial crisis, has caused a severe disruption to global trade in beef, which means the price benefits likely to flow from a relatively low A\$ have not yet been realised.
- iii. A potentially longer term impact from the global financial crisis has been substantial falls in



demand for hides and offal. The decline in values of these co-products accounts almost entirely for the decline in livestock prices between 2005 and today. In fact, the meat value of the carcase is actually higher today than it was in 2005 (except for grain-fed steers due to the extraordinary demand for grain-fed beef in 2005).

In the Committee's view, based on the evidence we have accessed, cattle prices are stronger today than they would otherwise have been, and the marketing activities funded by the cattle transaction levy have been a significant contributor to this outcome.

 **c) What are the key challenges and opportunities likely to face the industry over the next five years?**

The Committee concludes that the Australian beef industry faces the following critical challenges and valuable opportunities.

Challenges include:


- countering increasing misinformation in the community, both domestically and in overseas markets, about our environmental impact;
- continuing to defend our position in major North Asian markets in the face of the return of the US, our major competitor;
- reinforcing red meat's nutritional position as an important part of a healthy diet;
- competing with significant volumes of cheaper product entering our overseas markets from South America and India; and
- addressing the threat of reduced beef demand in our major markets from the current economic crisis.

Opportunities include:

- capitalising on our world leading systems in product quality and safety;
- claiming our share of the increased demand for beef expected to be delivered by longer term global population growth;
- developing new markets and identifying market

niches for Australian beef around the world; and

- building greater recognition of our industry's strong credentials in health and nutrition, environmental stewardship, animal welfare and consumer appeal.

 **d) What would the program scenarios be under a range of funding levels?**

The Committee determines that the industry must pursue a broad range of programs throughout the beef supply chain to consolidate its position in beef markets and address the challenges and opportunities that lie before it.

i. Without current funding levels, the position of Australian beef on the global market would be compromised.

A reduction in funding would necessitate cuts in marketing activities such as:

- discontinuing some key domestic consumer campaigns;
- scaling back international programs designed to promote Australian beef's points of difference – trust, integrity, trade and consumer reputation; and
- reducing the industry's capacity to manage and respond to issues and crises that may arise.

ii. With additional funds, MLA could strengthen the industry's defences against known challenges and further exploit expected opportunities in domestic and global markets.

The key areas that would attract additional funding were it available are:

- stronger positioning of Australian beef in Korea and Japan as competition from US beef ramps up;
- further promotion of the industry's environmental and animal welfare integrity in the domestic and increasingly overseas markets; and
- more aggressive promotion of both chilled and frozen beef and cattle exports in South-East Asia.

4. Key findings and recommendations



iii. Barring unforeseen issues emerging, the current marketing levy should generate sufficient funds for MLA to consolidate the market position of Australian beef.

In order for the Australian red meat industry to continue to ‘punch above its weight’ on the global beef market, a coordinated approach is required to undertake those important activities that help position the industry, which cannot be reasonably pursued by commercial enterprise alone.

Australia’s **market access** to global beef markets may be improved via opportunities for free trade agreements (FTAs) with Korea, Japan and China. On the other hand, we may face competitive challenges if other supplying nations develop their own FTAs with these key markets before Australia does.

Greater understanding of Australian systems such as the National Livestock Identification System (NLIS), Livestock Production Assurance (LPA) and Meat Standards Australia (MSA) can play a vital role in protecting the access we currently enjoy as well as advancing penetration into global markets. Therefore, we believe that MLA needs to maintain its investment in the industry’s safety and quality systems to ensure the Australian beef industry is well placed to maintain and improve market access.

In **Japan** and **Korea**, our industry faces a formidable competitor in the US as it seeks to recapture its share of these valuable markets. Australian beef has established new levels of recognition, appreciation and volumes during their absence and our primary goal is to retain as much of the gains as possible.

MLA’s programs in Japan and Korea are aimed at achieving four critically important objectives for the industry:

1. defending the current strong foothold to maintain our leading market share;
2. continuing to develop the image and experience of Australian beef as a high quality, safe, wholesome, good value product;
3. expanding beef exports by contributing to continued beef consumption growth; and

4. reassuring an increasingly concerned Japanese market about the environmental integrity of Australian beef production systems.

We endorse MLA’s focus in these markets on:

- further strengthening trade relationships and attitudes;
- maintaining retail distribution and expanding product offerings;
- expanding collaboration with exporters through partnership programs (ICAs);
- further promotion of Australia’s systems (NLIS, LPA and Eating Quality Assured – EQA) to build trade loyalty;
- promotion of the health benefits of beef to consumers;
- strategic advertising and press relations; and
- tactical consumer promotions.

The **domestic** market is seeing expenditure levels on beef threatened, particularly in the current economic environment, along with increasing calls to reduce red meat consumption on environmental and health grounds. Beef is still a dominant player in the family meal repertoire and the recent trend back to more structured and wholesome family meal times provides opportunities for further growth.

We believe the priority areas to achieve further growth in the value of beef on the domestic market to be:

- promotion of good value, high appeal family meals;
- reinforcing the important role of red meat in a healthy diet;
- countering adverse environmental and health claims; and
- continuing progress on raising retail standards.

In the **US**, our leading supplier status in ground beef remains critically important to help balance demand across the carcass. A growing population and a downshift towards burgers driven by the global financial crisis means this market will become even more valuable to Australia in the short term, but also



offers interesting longer term potential. Australian exporters have been successful in building a significant niche market for our chilled beef in the US, and this can expand as an alternative premium market for Australian exporters as the US comes out of recession.

Building and capturing opportunities in smaller and emerging markets continues to be important to reduce our heavy dependence on the 'big four' – Japan, US, Korea and the domestic market.

In **Europe** and **Russia**, gathering and sharing market information, building trade relationships, building awareness and understanding of Australia's products and systems, and again developing partnerships with exporters to leverage industry funds and assist market penetration are important and endorsed.

In the **Chinas** and **South-East Asia**, growing populations and affluence mean demand for high quality, fresh protein will only increase, and Australia is well placed to meet these needs. The challenges lie in improving market access, building and sharing market intelligence, and building trade awareness and loyalty. MLA's programs focusing on 'Brand Australia' – promoting our industry's systems via educational activities and promotions – together with partnership marketing programs with exporters, appear valuable and are endorsed by the Committee.

The **livestock export** market provides a crucial outlet for predominantly northern cattle as well as for locking in overseas markets for Australia through inter-dependent business relationships.

The focus for live cattle exports is on growing demand in the largest market – Indonesia.

Given the strong presence of Australian beef and beef from Australian livestock in the Indonesian market, we endorse joint programs aimed at increasing consumption through building consumer awareness of the nutritional benefits of beef, and appreciation of the variety of cuts and cooking styles. In addition, the Committee supports investment in improving beef retailing standards and hygiene at both traditional and modern markets,

and supporting the development of local brands based on beef from Australian cattle.

We note the industry's consultative processes that take place each year in refining and evolving these programs to meet market needs and opportunities. While increased funding will be required over the next five years to cover likely cost increases in maintaining and developing these programs, provided MLA cattle herd projections are accurate, this need for increased funds should be covered by a simultaneous growth in the number of cattle transactions anticipated during this period. We are also mindful of the need for MLA to experience the sort of pressure producer and processor levy payers encounter as they strive to do more with less.



e) What is the appropriate level of spending on these programs?

The Committee finds that the \$5 levy is a modest but appropriate investment in the future of the industry.

Investment by the beef industry in industry-wide programs is already relatively low in comparison to other sectors of agriculture.

At an average steer value of \$800 per head, the marketing component of the levy (\$3.66 for grass-fed and \$3.41 for grain-fed cattle) represents 0.45% and 0.43% of the sale value of the animal respectively. This compares with 1.2% for lamb and 1.05% for pork.

In considering the purchasing power of the levy today, \$5 in 2009 holds roughly the same value as the original \$3.50 levy in 1998. Looking forward, assuming an inflation rate of 2%, we would require a levy rate of \$5.63 in 2015 to maintain the value of the current \$5.

As noted above, the forecast increase in the number of cattle transactions should offset this loss of levy value over the next five years, provided inflation forecasts are also accurate.

4. Key findings and recommendations



Accordingly, the Committee recommends that:

- 1. the current \$5 per head cattle transaction levy rate be retained;**
- 2. a minimum return on investment to producers be set at three times the overall marketing levy as the performance yardstick in future reviews;**

(While the Warwick Yates and Associates review found that a five times return was being achieved on the \$1.50 component, we acknowledge that there are some base marketing costs eg NLIS database, market information that cannot deliver a quantified return on investment.)

- 3. future reviews of the levy be undertaken as a result of industry need, triggered by the peak councils, and not according to a pre-determined timeframe.**

(We caution that, with the rapidly developing environmental challenges confronting the industry, the current cattle transaction levy (for both marketing and R&D) may be insufficient to defend the industry's interests and reputation. We advise the peak councils and MLA to closely monitor and communicate developments and needs.)

The Committee recommends the retention of the current \$5 per head cattle transaction levy.

5. Outlook for Australia on the global market



While the global financial crisis and associated economic downturn has suddenly taken the world's attention away from food supply shortages and food price inflation, the underlying factors that led to buoyant global beef markets in 2007-08 are expected to return over the medium to long term.

However, Australia will face strong competition from the US, South American and Indian beef and other protein suppliers and will need to work hard to maintain an edge in key growth markets.

One-off global beef demand fall in the short term

The world has suffered a sharp one-off decline in credit availability, leading to a unique downward adjustment in the value of output (Gross Domestic Product or GDP) across industrialised countries and slowing of economic growth in emerging economies. It is unclear just how long and deep this economic adjustment will be, though it looks certain to be the largest since the 1930s Great Depression and is likely to take until at least 2011 before growth is restored to long term averages.

This fall in incomes across the industrialised world will set back global demand for red meat, particularly beef, reversing some of the recent gains in global meat expenditure. Even in key emerging economies, such as China and Russia, consumers are tightening spending and switching from beef to cheaper meats or foods, to cheaper cuts and to cheaper outlets when eating out. Globally, this expenditure decline is likely to be essentially through a price fall, rather than volume, as beef production cannot quickly respond to unanticipated demand shifts, as can poultry and pork.

Australia's short term position

The Australian beef industry faces a number of unique challenges in the short term, including the credit crisis and global economic downturn, US re-entry to the North Asia markets, the ongoing drought in parts of Australia and associated low southern incomes and rising debt. However, after a weak start to 2009, the low Australian dollar (A\$),

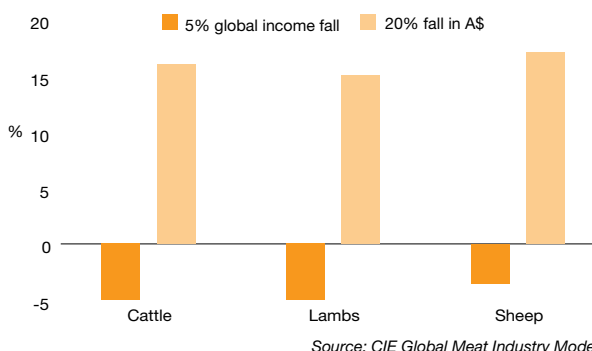
improving seasonal conditions and falling input costs are forecast to lift cattle prices and farm incomes over the next few years.

Demand in all Australia's key beef markets, domestic, Japan, the US, Korea and Russia, is expected to fall in the short term, as consumers tighten spending.

This is likely to be principally felt in the 'white tablecloth' restaurant sector and for higher-priced cuts at retail, while demand at more affordable foodservice outlets (such as fast food) and for lower priced cuts at retail (such as mince and sausages) is predicted to be firm or to strengthen. Overall, local and overseas consumers are expected to eat at home more, dropping foodservice revenues but raising sales at retail.

In the first half of 2009, Australian beef exporters have the added burden of a short term disruption to trading as buyers run down stocks due to problems obtaining credit, currency fluctuations and concern over future demand which is leading to lower prices.

Impact on livestock prices of exchange rate changes and income falls

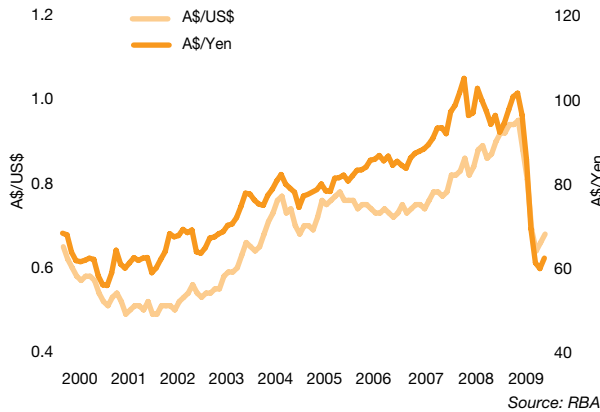


These immediate problems aside, the dramatic devaluing of the A\$ seems likely to shelter the Australian beef and cattle industries from the short term slump in beef demand. This will enable a fall in the cost of our product in customer countries and associated rise in sales. If the \$A remains low, room should be left for some lift in prices to Australian exporters (in A\$ terms) and to the beef and cattle industries generally.

5. Outlook for Australia on the global market

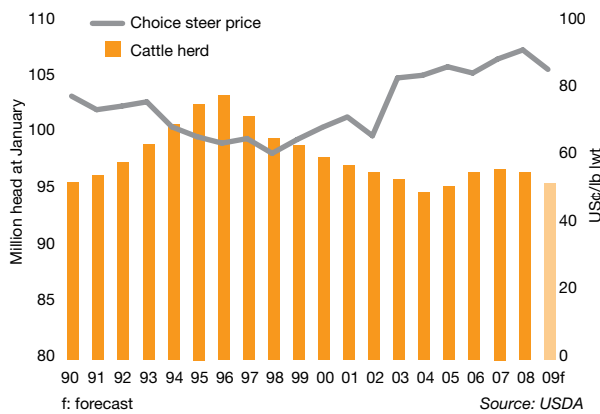


A\$ against US\$ and Japanese yen



The fall in the A\$ should place Australian beef in a better competitive position in the US, and Japan – where the key competitor is US beef. This could be assisted by some fall in US beef supply following further liquidation of the herd in the past two years.

US cattle herd and fed cattle price



Also, the recent easing in competition from South America in Russia and across a range of smaller markets is likely to be largely maintained once Russia recommences buying.

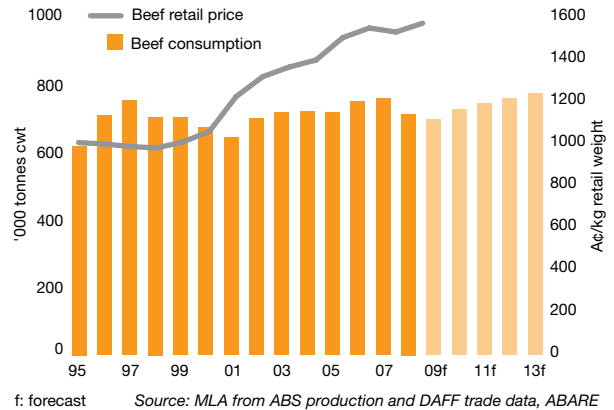
Furthermore, Australian beef is principally at the more affordable end in many overseas markets. Hence, demand for Australian product is expected to be impacted less by the global downturn than for beef generally, and could strengthen in some markets, especially the US.

The medium to long term outlook for the Australian live cattle trade continues to look positive, especially if seasonal conditions enable rebuilding of cattle

numbers across northern Australia. Supply permitting, exports are anticipated to increase steadily from 2010 onwards, reaching 875,000 head by 2013.

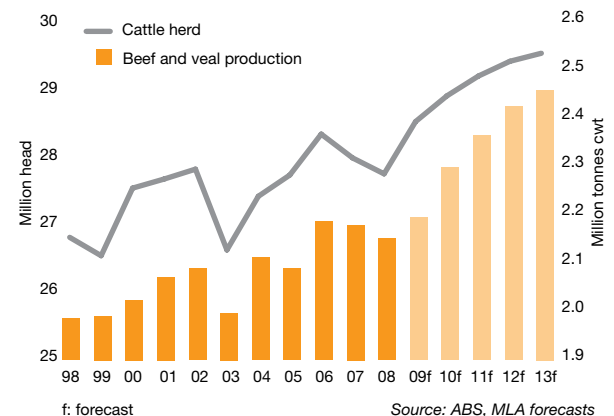
The three Australian markets expected to suffer an overall fall in demand and sales in the near term are the domestic market (due to the economy and higher retail prices), Korea (due to the US return and economy) and Russia (due to lower price competitors and reduced credit). This is expected to be offset by increases to the US, Japan and elsewhere.

Beef consumption and retail price



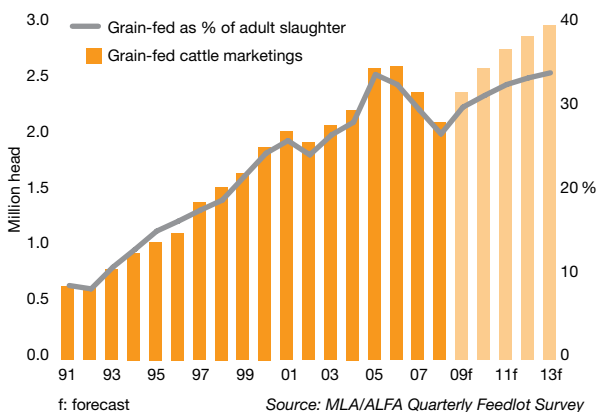
Australia's beef industry is expected to embark on herd rebuilding in the short term, providing the long-running drought continues to recede. With the benefit of better pasture and feed grain supply and lower farm input prices, beef production is forecast to increase significantly from 2010. Restocking efforts should restrain beef supply, with reduced slaughter of cows, heifers and young steers, offset by increased turn-off of grown grass-fed and grain-fed steers.

Australian cattle herd





Grain-fed cattle marketings



Following an 11% fall in fed cattle output in 2008 and almost 20% decline since the peak in 2006, triggered by a doubling of grain prices, high fuel costs and lower export prices (due to the high A\$), the feedlot sector is expected to begin a period of recovery. The long term prospects are positive for Australian grain-fed beef, with the anticipation of rising global beef prices, a lower A\$, recovery in beef consumption in Japan and Korea and a restoration of domestic usage. Grain-fed cattle output is expected to expand beyond the 2006 high of 2.63 million head by 2011.

In 2010, Australian beef and veal production is forecast to reach 2.3 million tonnes cwt, up 4.8% on 2009's forecast level, and grow to 2.46 million tonnes cwt by 2013, 14.3% higher than in 2008.

Medium term for beef trade still looks bright

Overall beef supply/demand balance

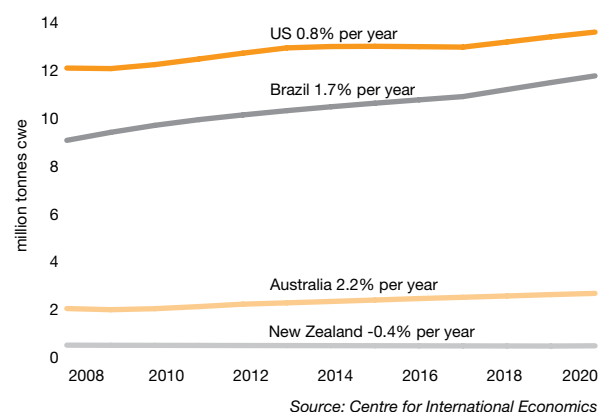
Global economic growth will eventually be restored (forecast to commence by 2011), and probably in a more-or-less synchronised way. This, together with ongoing population expansion, should renew the growth in demand for meats, centred on the newly industrialising giants of China and India and, to a lesser extent, in Russia, Japan, Korea, elsewhere in Asia and in South America.

The World Bank predicts that by 2030 the global middle class will number 1.15 billion people, compared with only 430 million in 2000. By 2030, 93% of this middle class is expected to be in developing

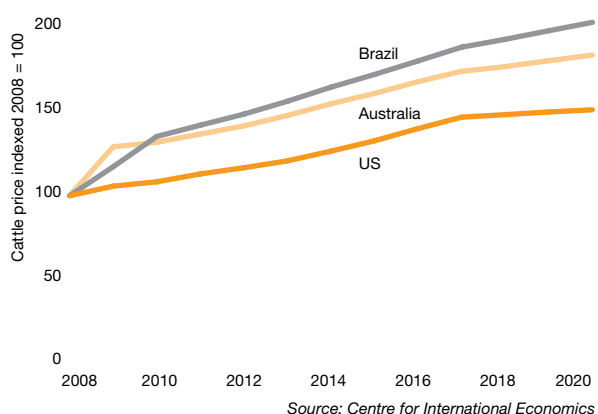
countries, up from 56% in 2000, with China and India accounting for two-thirds of the expansion. (See figure on the following page)

The world's ability to supply this expected growth in beef demand is becoming increasingly limited by resource constraints, particularly land and feed. Over the coming 5–10 years there is only expected to be slow growth in supplies from the principal beef exporters of Oceania, North America and South America. The Centre for International Economics (CIE)¹ predicts annual average growth of only 0.8% in US beef supply, 1.7% in Brazil (half the 3.4% over the past 10 years) and Australia 2.2%, with notable falls in supply in New Zealand and Europe.

Future beef and veal production by country



Future cattle prices



¹ The CIE study incorporated the recent and projected economic slowdown and exchange rate changes, as at December 2008

5. Outlook for Australia on the global market



Distribution of additional world population over the next 10 years



Distribution of additional world GDP over the next 10 years



Competition is intensifying for available land from population and urban expansion and other agricultural pursuits, particularly cropping, forestry and horticulture. Also, environmental considerations are likely to impose increased costs on beef production, limit further land clearing and even see a reversion of some farmland to native bush and forests. The promotion of bio-fuels, and possibly climate change, is also likely to continue to see grain prices trend higher, raising the cost of meat production, led by poultry, pork and lot-fed beef.

A major study by OECD/FAO (Organisation for Economic Co-operation and Development/Food and Agriculture Organization) in mid-2008² projected growth of 2%/year in world meat consumption

over the period 2007–2017, from 68 million tonnes to 79 million tonnes. Growth for pork and poultry is projected to be 2%, but a lower rate of 1.7% is projected for beef and 1.8% for sheepmeat.

However, this is not a full reflection of the demand growth, as the main constraint on consumption is expected to be supply not demand. Rising medium to long term demand for beef, coupled with slower expansion in beef supplies and higher production costs, adds to an upward trend in global beef prices. By 2017, FAPRI (Food and Agricultural Policy

² This study was undertaken prior to the global financial crisis and sharp fall in economic growth. While, beef consumption, trade and global beef prices are now expected to suffer a short term setback, the medium term trends outlined by the OECD/FAO remain valid.



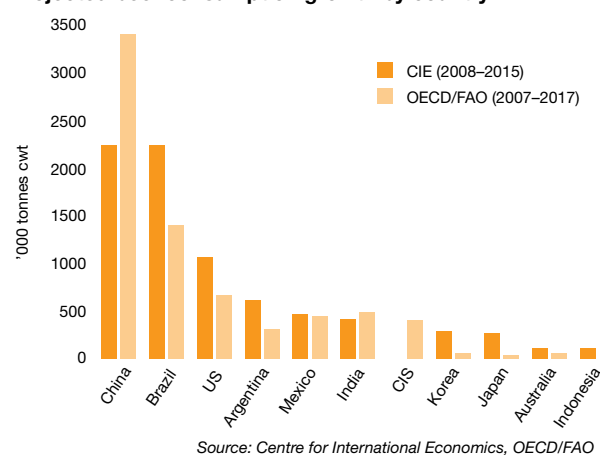
Research Institute) projects global beef prices (using US as the reference) to be 26% higher than the average for the 1999–2006 period, with a rise of 22% for pork and 28% for chicken.

Similarly, the CIE (Centre for International Economics) projects a rise in cattle prices of 3.5%/year over the next 12 years in the US, 4.4%/year in Brazil and 4%/year in Australia.

Major growth markets

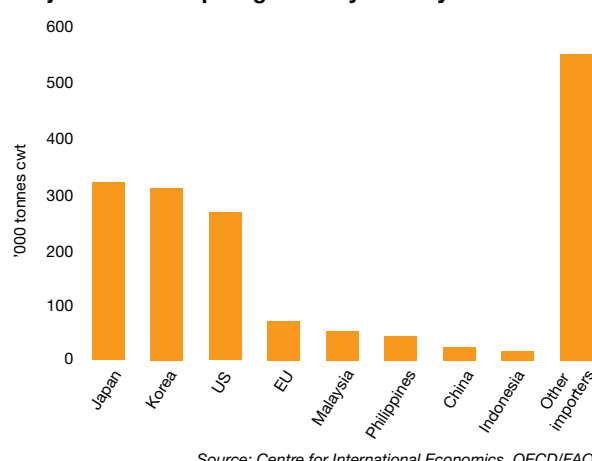
OECD/FAO projected a 12 million tonne growth in global beef consumption over the 10 years from 2007 to 2017 and CIE (for selected major consuming countries) a 7.7 million tonne rise between 2008 and 2015. This growth is expected to be driven mainly by China and Brazil, followed by the US, India, Russia, Mexico and Argentina, and possibly the Middle East/North Africa. Consumption growth would be stronger, particularly in Japan, Korea and the EU, if trade barriers were eased.

Projected beef consumption growth by country



With most of these countries also being major producers, if not exporters, growth in beef trade is likely to be much smaller than in consumption, with OECD/FAO predicting a 2.5 million tonne (30%) growth in beef trade between 2007 and 2017, to 11 million tonne cwt. CIE predicts substantial growth in imports in Japan, Korea, US, EU, South-East Asia and China, with large growth also in 'other markets', not specifically modelled, probably led by Russia and the Middle East/North Africa.

Projected beef import growth by country 2008–2015

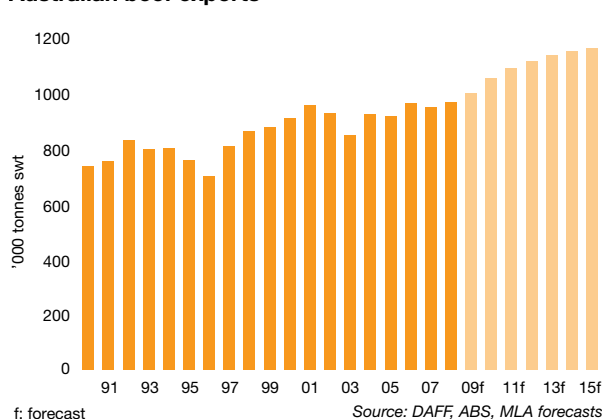


Australia's competitive position in the medium term

Australia remains in an enviable competitive position in the global beef trade, with the prospect of significant growth in supply, freedom from major diseases and hence access to all major markets, and top ranking for health, hygiene and safety (and shelf life). Australia also already has a strong presence in the key expected growth markets of North Asia, the US and South-East Asia – though not as strong in China or Europe.

Australia's beef exports are projected to expand by 20% or 193,000 tonnes swt (290,000 tonnes cwt) between 2008 and 2015. CIE expects only the US (as it returns to Japan and Korea) and India to exceed this growth, with Argentina, Uruguay and Canada also registering significant export growth.

Australian beef exports



5. Outlook for Australia on the global market



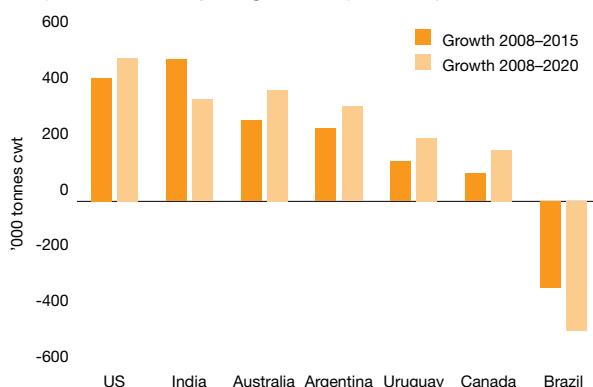
The big question mark is whether Brazil's growth in beef supply can exceed the substantial expected growth in local demand and beef consumption, leaving room for a significant further expansion in exports.

CIE projections have Brazil's beef consumption growth exceeding supply, lowering exports. However, most forecasting agencies are expecting substantial further expansion in Brazil's exports, given the incentive provided by higher global beef prices. In fact, it seems likely that Brazil's beef prices will again start undercutting Australia's in coming years, though without revisiting the huge discounts of the 2004 to 2007 period – immediately after the banning of US product from North Asia, the depreciation of the Brazilian real and rapidly rising Brazilian production.

In conclusion, we consider that Australia has the platform to share in the expected expansion in the global beef trade over the period to 2015, with higher prices. However, Australia will likely face stronger competition over the medium term from the US at the quality end of the market and from India and South America in the lower-priced chilled and frozen beef trade, particularly in Europe, Middle East/North Africa, China and South-East Asia.

As always, the medium term prospects can change quickly with shifts in exchange rates, market access and health and safety incidents. Our industry, both collectively and individually, will need to continue working hard if we are to maintain an edge in integrity, product quality, service, customer relationships and consumer appeal – particularly as the US strives to restore its global reputation and as South American suppliers shift towards the higher quality end, potentially with chilled and grain-fed product.

Projected beef export growth by country



Source: Centre for International Economics

6. The role of industry funded programs



We recognise that while Australia may have enjoyed natural production advantages over its competitors in the past, we cannot rely as heavily on cost competitiveness against the production powerhouses of the US, South America and an emerging India. The US enjoys huge economies of scale and immediate access to the largest beef market in the world. Both Brazil and India have low labour costs and significant natural resource advantages. Yet both are hampered only by the presence of foot and mouth disease in their regions and limitations on access to the high value markets that Australia has helped develop.

Australia can no longer succeed on the global market based on our low cost of production. Rather, we must compete on the basis of being the world's best.

A unique feature of the Australian beef industry is its coordinated and cooperative approach to marketing and industry issues, and this is widely acknowledged and envied by many other beef producing nations. It has helped Australia to be very effective in the international market place, even though our overall industry is small in comparison to those of competitor nations, and our trading enterprises smaller than their overseas counterparts. In competing with these emerging exporter nations, Australia must continue to 'punch above its weight', by continuing our coordinated approach in our overseas markets, rather than to pull back and leave it to individual enterprises on their own. And in the domestic market, issues such as nutrition, the environment and beef meal promotion cannot be adequately addressed by commercial enterprises on their own.

Our industry needs marketing to demonstrate our credentials and MLA needs to continue playing a pivotal role in facilitating this coordinated approach, particularly in the area outlined below.

Environmental impact

Communities and consumers, both here in Australia and overseas, are increasing their awareness and interest in the ethics of food production, particularly as it relates to environmental sustainability and animal welfare.

Surveys show that currently the red meat industry

enjoys high levels of trust within the community, and tracking since 2004 shows that trust levels have remained consistently high over that time. However, increasing focus on environmental sustainability and factors contributing to climate change have heightened the need for the industry collectively to promote knowledge around the positive role it plays in caring for and sustaining the environment in which we operate.

While there is already a substantial Government and industry investment in R&D on which to better inform climate change policy and develop effective industry tools, there is an urgent need for the beef industry to defend beef consumption by demonstrating and communicating its credentials in both environmental stewardship and protection of animal welfare to consumers living in metropolitan areas domestically and in key export markets. The global focus on climate change and misinformation regarding the livestock industry's 'environmental footprint' has the potential to become not only an impediment to increased demand, but a market access barrier if left unchecked.

Commencing in our major market, the domestic market, a concerted effort to market the Australian beef industry – not our beef products, but our industry – is needed to appropriately address consumer and community sentiment on social accountability, environmental and animal welfare issues.

Product safety and integrity

A key tool in the international marketing of Australian beef is differentiating our product from other supplying nations. A vital area of differentiation for Australia is to be seen as a leader in the supply of safe, wholesome, red meat products.

This differentiation, which underpins generic Australian beef brands such as Aussie Beef in Japan and *Hoju Chung Jung Woo* in Korea, is possible only through the development and implementation of world leading systems and tools to build our competitive advantage on safety and integrity.

Already, the industry investment and commitment to food safety verification schemes that start on the



6. The role of industry funded programs



farm – with programs such as Livestock Production Assurance (LPA), and in traceability systems such as the National Livestock Identification Scheme (NLIS) – have provided key points of differentiation in premium markets.

The importance of this point of differentiation in individual markets is reported in the coming pages.

We noted that future investment in tools and systems to underpin this marketing will include:

- continued enhancement of quality assurance systems (such as LPA) and technology initiatives in the processing sector to further reduce the risks of any food safety incident arising; and
- refinement of traceability systems (such as NLIS) and improved testing regimes to ensure any potential food safety incidents (or perceived food safety incidents involving exotic animal diseases) within the red meat sector are traced and recalled before reaching consumers.

This investment not only provides the opportunity to differentiate our product in increasingly food safety cautious markets, but is also crucial to keeping free from major disease incidents.

The costs associated with such an incident are almost incalculable in terms of eradication expenses, lost market access, damaged reputation and costs to recover previous market share. Conversely freedom from such incidents assists Australia in being able to access the world's premium meat markets.

Market access

With around 68% of beef produced in Australia destined for international markets, changes in market access can have a significant affect on the profitability of livestock producers and meat processors.

Many of the market opportunities now available to the Australian beef industry are the direct result of improvements in market access, either through market liberalisation, such as in Japan in the early 1990s, or through defence of our market access advantage, such as the positioning of Australian beef as safe and free from disease during exotic disease outbreaks in other beef supplying nations.

A central part of any strategy or plan to increase demand for Australian beef globally starts with activities to defend existing rights of access to livestock and meat markets and, where possible, securing improvements to these conditions.

Many market access issues arise unexpectedly, being often technical in nature. Across the globe, the Australian beef industry must continue to monitor developments on market access, and stand ready in partnership with Government to respond swiftly should an adverse event occur.

The World Trade Organisation (WTO) Doha Round, despite delays, continues to offer some prospects for trade reform. It is critical that real and significant improvements in market access are forthcoming from this Round. Research indicates that access improvements into North Asian markets for beef are critical.

Alongside the WTO activities, it is necessary to position the Australian meat and livestock industry in free trade agreements (FTAs) involving Australia. For each FTA, industry priorities need to be agreed and reinforced with Government, this reinforcement being constantly updated as negotiations progress.

Eating quality

With Australian beef being produced through such variable production systems across the country, being able to deliver a consistent product and therefore a high level of consumer confidence in product performance is a major challenge. For Australia's beef industry, variability in eating quality has been previously identified as a significant impediment to demand growth, both domestically and in export markets.

The Australian beef industry has invested in the development of world science in the area of meat eating quality, and from that investment has created a grading scheme in Meat Standards Australia (MSA). This program is designed to assist the Australian beef industry to provide consistent and predictable eating quality beef to our customers and consumers, both in Australia and overseas, in a cost effective manner.

With the program now well established, there is now the opportunity for the industry to add consistency



in eating quality to its existing food safety point of differentiation in key markets such as Japan and Korea – offering another strong attribute to ‘Brand Australia’.

There is also now increased opportunity for individual supply chains and private brands to capitalise on eating quality as a differentiator in key export markets. This quality based differentiation can provide significant benefits in consumer satisfaction and capture unrealised value for the industry. MLA’s Eating Quality Assured program takes MSA knowledge and applies it to meet the needs of overseas customers, delivering a guarantee that can underpin the quality claims of private brands in the international marketplace.

Critical to the industry capturing these opportunities is increased supply chain education on MSA, requiring a comprehensive program of workshops, seminars and information materials.

Industry and market information

Given the complexity and change apparent in the red meat trading environment, it is imperative the Australian industry invests in a base level of market information and competitive intelligence. MLA should provide support to industry and Government to make better business decisions through the supply of relevant and timely market information; improving information flow along the supply chain using animal ID/carcass measurement systems; gathering and disseminating competitor intelligence; and developing relevant risk management tools.

MLA’s National Livestock Reporting Service (NLRS) is one such tool, providing industry statistics and detailed reporting for major cattle and sheep markets and is funded entirely by the marketing levy.

We conclude that MLA should continue to invest in the collection and maintenance of domestic and international meat market data of relevance to the Australian meat and livestock industries; disseminating analyses of relevant world meat market developments; gathering and analysing data on competitors; facilitating the development of improved information flows within supply chains; and encouraging the commercial supply of risk management tools, such as the Cattle Futures contract.

Collaboration with the commercial sector

We regard MLA’s Industry Collaborative Agreement (ICA) programs as a vital component of MLA’s overall marketing strategy for Australian beef. Whereas the common features of Australian beef, such as the safety and product ordering systems, can be promoted by MLA on a generic basis, increasingly customers are seeking a differentiated product, such as ‘natural’, ‘grain-fed’, ‘grass-fed’, ‘organic’ and ‘Eating Quality Assured’. These claims are targeted at specific customer segments and can only be made on a branded basis. The ICA program has been developed to maximise the capability of the Australian industry to target specific customer segments.

The focus of the ICA program is to encourage and assist Australian beef exporters to implement marketing programs and build customer demand and loyalty for their specific products. This in turn should assist market growth and overall loyalty to Australian beef.

Under this program MLA provides 50% co-funding support for the exporter’s marketing programs. While the program has evolved from country-specific ICAs, which MLA has been conducting for a number of years, the new global approach gives exporter participants the flexibility to adjust their investment across markets as relevant to their specific business goals. An adjunct to the program is the development of marketing capabilities across the supply chain, especially at the exporter level.

Similar collaborative approaches are taken in the domestic market where MLA makes co-funding available to encourage and support commercial initiatives that improve consumer satisfaction with beef, generate and launch high appeal new products, raise retailing standards and develop new outlets for beef.

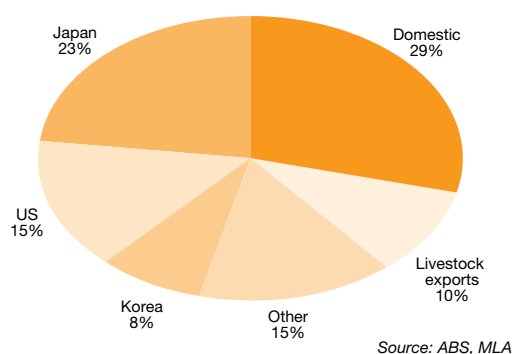
7. Australia's beef markets: challenges and opportunities



Australia currently supplies a diverse range of beef, in terms of both quality and form, to over 100 countries around the globe.

Five key markets dominate our industry, representing 85% of beef and cattle production. In carcase weight equivalent terms, these are domestic, Japan, the US, livestock exports and Korea.

Australian beef and cattle utilisation – volumes cwe



Our domestic market remains our largest and most valuable, representing around 730kt carcase weight and generating consumer expenditure through retail, foodservice and industrial usage of around \$6.6 billion. Our export markets collectively represent 957kt shipped weight with an FOB value of \$5.0 billion. Our live cattle exports of 870,000 head represent further national income of \$644 million.

One of MLA's primary roles is to grow demand for Australian beef and livestock.

In the domestic market, MLA contributes to this by growing consumer demand. This is achieved by reducing the consumer attitudinal and behavioural barriers and by leveraging the drivers of demand. This involves direct-to-consumer communications, key influencer programs, and working with retail and foodservice sectors in promotion and development.

In export beef markets, MLA's role is in limiting and reducing barriers to trade, and by growing trade and consumer demand for Australian beef. This is achieved by MLA providing an information base on each market, by assisting Government in trade negotiations, by facilitating relationships between Australian exporters and supply chains within each market, and by initiating and coordinating promotional programs targeted to the various consumers around the globe.

In live cattle export markets, MLA collaborates with industry to maximise the market options for producers and exporters involved in this trade, by delivering improvements in animal welfare throughout the export chain, improving risk management by exporters to ensure positive voyage outcomes and building community support for the trade through proactive communication of the industry's achievements.

We reviewed the activities carried out on behalf of Australia's beef and cattle producers in each of these important markets, and the details of the challenges, opportunities and proposed strategies and programs to address them are outlined in the following pages.



Domestic

MARKET OVERVIEW

The domestic market is historically the largest for Australian beef, accounting for around 35% of total beef production (734kt carcass weight in 2008) and contributing \$6.6 billion to industry revenues.

Consumption, the traditional measure, has been relatively stable over the last decade, although fluctuating between 34 and 40kg/head per year due to the influence of supply and the relative strengths of domestic and export demand. Consumer expenditure on beef, a more relevant measure, has grown strongly in recent years as a result of increased volumes and retail prices, fuelled by improvements in consumer disposition and satisfaction.

Beef faces strong competition from all other foods for share of the family meal repertoire, but specifically from chicken, lamb, pork and fish for space on the plate. Beef continues to dominate at-home meal times with over 50 million servings every week.

Publicity around childhood obesity over recent years has triggered a shift in meal behaviours, with recent MLA research finding many families returning to more wholesome patterns of eating – cooking from scratch, more traditional meal types, and eating together around the table – which augurs well for beef consumption at home.

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Volume ('000kt carcass weight)	704	676	646	703	720	721	718	753	760	734
Volume ('000kt retail weight)	401	386	369	401	411	411	409	429	433	418
Avg retail price (\$/kg)	\$10.11	\$10.61	\$12.26	\$13.21	\$13.67	\$14.00	15.06	\$15.52	\$15.33	\$15.79
Consumer expenditure (\$mil)	\$4,055	\$4,090	\$4,518	\$5,293	\$5,614	\$5,756	\$6,167	\$6,662	\$6,637	\$6,602

Source: Calculated from ABS production, DAFF exports and ABARE retail price data

At-home (retail) sector

Household volumes Jul-Dec 2008	Weekly serves ('000)	Share %
Beef/veal	50,050	39.2
Chicken	35,323	27.6
Lamb	21,779	17.0
Pork	15,929	12.5
Other	4,025	3.7

Source: Roy Morgan

Out-of-home (foodservice) sector

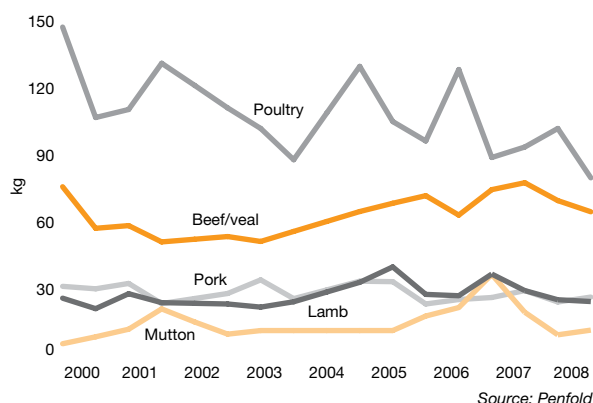
The foodservice sector – including fine dining, pubs and clubs, institutional and fast food outlets – represents around 30% of beef consumption. ABS reports that consumer expenditure in foodservice has been growing steadily over time, but in 2008 has suffered a significant knock from the tougher economic conditions.

Chicken is the strongest protein in the foodservice sector where cost per portion and price stability are critically important driving factors. Beef performs more strongly within the fine dining and the pub and club segments; unfortunately it is the fine dining segment that is under most pressure from the tighter economic conditions. Fast food has been a traditional strength for beef, but again

7. Australia's beef markets: challenges and opportunities – Domestic



Summary of weekly consumption at foodservice



tighter economic conditions are encouraging greater promotion of chicken to maintain this segment's very strong value proposition.

Consumer demand drivers

As with all staple foods, consumer choice in meat is heavily influenced by five key demand drivers. MLA's beef marketing programs work across all five drivers to both enhance industry performance as well as promote that performance to consumers and the community. Examples of this work include:

Enjoyment	Adoption of eating quality systems, 'Entice' beef meal promotions
Nutrition	Research to support red meat's role in the diet, healthcare professional communications, 'Red Meat. We were meant to eat it' consumer campaign
Convenience	Retail standards development, Red Meat Networking Club of retail butchers, new product development and launches
Integrity	Royal Shows, Farm Day, Primary Industries Education Foundation, media relations and stories
Value for money	Food media relations and stories, secondary cut promotion in foodservice, and adoption of supply chain technologies

This work involves partnering within the retail and foodservice sectors to enhance beef's performance, as well as partnering with industry, research and public health organisations to help build community appreciation. The program reaches out directly to consumers with industry promotion, nutrition communications and beef meal promotion using main media, events, PR and point-of-sale.

THE CURRENT SITUATION

Clearly the economic situation is the major factor influencing the domestic market today. Rises in fuel prices and mortgage rates throughout 2008, followed by the global credit crisis in the last quarter have shaken consumer confidence dramatically, with the Roy Morgan Consumer Confidence Index suffering its biggest ever one week fall in September and now hovering at around 17 year lows.

Consumer expenditure for beef has levelled off after the significant increases of recent years, easing by \$35 million to \$6.601 billion in 2008. Reports from retailers indicate a shift away from high priced cuts towards lower priced options including mince, sausages and chicken, while the foodservice sector reports moves away from fine dining to lower cost options (particularly fast food) and eating at home.

Key attitude and behavioural measures remained relatively strong through the first three quarters of 2008, but show a concerning drop in the final quarter apparently associated with the collapse in overall consumer confidence.

Key indicators	2007	Jan-Sep 2008	Oct-Dec 2008
Red meat serves/week	3.35	3.36	3.00
Strongly agree 'Essential part of a healthy diet'	48.2%	50.7%	45.0%
Strongly agree 'Richest source of nutrients'	25.7%	27.0%	21.0%
Strongly agree 'More important for my health than I previously thought'	24.2%	26.3%	21.0%
Total resisters and rejectors	19%	20%	22%



The fact that most consumers associate beef alongside lamb and fish as ‘expensive’ compared to pork and chicken raises real concerns for the continuing performance of red meat into 2009 as the economic crisis bites in Australia.

Beef consumption has also been the target of some environmental and public health activists over claims of ruminant contribution to greenhouse gases. So far there has been little traction with consumers, but such claims could become more damaging if those in our cities experience more and sustained adverse effects from climate change.

THREATS AND OPPORTUNITIES

While the last few years have been about consumer optimism, we’re now in a market that is decidedly pessimistic. There is no doubt the economic downturn is seriously influencing consumer behavior in the short term; but in the long term, recessions have a smaller impact on broad consumer trends than might be expected.

There are increasing signs that consumers in more affluent nations such as Australia, Europe and the US are moving away from a conspicuous consumption model and towards a more altruistic model. This has been partly driven by obesity, environmental fears and a sense of detachment (“our society is ill”) and spurred on by recent economic woes. A back to basics, less consumption based model is a positive for ‘whole foods’ like beef, as people reconnect with cooking straightforward meals, from scratch, and at home. People are also likely to become more suspicious of the modern packaged foods industry that suffers part of the blame for obesity and children’s behaviour.

A multitude of emerging trends represent both challenges and opportunities for the growth of beef demand in the domestic market – such as our aging society; the increased role of males in household shopping and cooking; a resurgence of independent retailers; and the growth of ‘enviro-conscious consumption’. The key to success is to harness the value, integrity, nutrition, convenience and enjoyment qualities of beef to capture and grow the new markets these trends inevitably offer up.

The key challenges for the future then can be summarised as:

1. how do we maintain consumer spending on beef in the face of low consumer confidence in the economy and perceptions that beef is ‘expensive’;
2. how do we counter calls to reduce beef consumption on environmental, health and affordability grounds; and
3. how do we retain beef’s dominance of our meal plates, capitalising on the trend back to home prepared, more wholesome meals?

WHAT SHOULD MLA DO?

The primary goal of the domestic marketing program should be to ensure that consumer demand for beef remains strong. This means that over time, industry revenues through category growth continue to grow, either through the consumption of increased volumes at current retail prices if there is plentiful supply; or through increased retail prices if supply is limited to current levels.

This should be pursued via six core programs:

- **Community education of agriculture in general, and of beef production in particular**

Further development and investment around environmental and welfare issues management, integrity promotion and opinion leader communications will play an important role in maintaining and defending the community’s trust and regard for the beef industry.

We recommend that funding requirements in this area should grow in real terms over the next five years with greater investment in issues based communications activities, schools’ educational materials and community engagement.

- **Further improve eating quality**

We acknowledge the great progress the industry has made in improving the quality of beef over the last decade to a point where consumer complaints are rare and trust in both the product and the retailer is higher for beef than it is for other meats.

7. Australia's beef markets: challenges and opportunities – Domestic



Meat Standards Australia (MSA) science and systems provide world leading tools for retailers and foodservice operators in Australia to provide high quality outcomes for consumers every time. While MLA should continue to assist wholesalers, retailers and foodservice operators to climb the 'eating quality staircase' (developing either their own or supplier brands), it is anticipated that MLA funding support will lessen over the next five years as enterprise brands gather their own momentum.

- **Consumer education and information on purchasing and preparing beef**

MLA's *Entice* promotions are proving to be popular and effective vehicles to both provide consumers with simple, everyday knowledge and skills in preparing beef meals and serve as effective focal points for point-of-sale promotion that drives skill adoption and beef sales.

We endorse MLA's plans to run three of these promotions each year, timed approximately around the following seasons to cover the range of beef cuts and cooking styles (November – 'the grilling season'; March – 'autumn roasts'; and June – 'winter's here').

Year-round on-pack labelling and point-of-sale information are fundamental to help shoppers and meal preparers in every food category, yet in meat, we are not yet meeting normal customer information needs. MLA should continue to encourage and support retailers to improve guidance to their customers to help them buy the right cut and prepare it the right way for enjoyable beef meals.

- **Nutrition promotion to health sector, community and consumer**

MLA must continue to ensure that sound science underpins all of its nutrition communications and promotion. Accordingly, MLA must maintain its networks throughout the global beef industry and research communities, as well as contribute funding towards specific areas of research that can help either defend or promote our industry's interests.

Results of this research work should be published, promoted throughout the healthcare sector, and

form the basis of consumer and community advertising and promotional campaigns. Messages should continue to be focused around 'red meat' rather than 'beef' or 'lamb' as:

- academic and public debate usually refers to 'red meat' rather than 'beef' or 'lamb', and our response must meet the debate head-on;
- there are negligible nutritional differences between the red meat categories;
- it is more cost efficient to combine beef and lamb under a red meat banner than have each promoting and/or defending their own nutritional value;
- it is a simpler, more easily understood concept for consumers; and
- it allows each category to focus on taste and enjoyment cues.

We support continuation of the human nutrition research, communications within the healthcare sector, and consumer promotion campaigns.

- **Product development and promotion**

While development and adoption of value-added beef products (particularly those using secondary cuts) has been successful among retail butchers, there has not been the same level of success within supermarket channels due to constraints on supply chains and store promotion. Rather, success in supermarkets appears to rely more on less sophisticated concepts such as thin sliced/thick sliced steaks, diced/strip cuts and simple oven ready roasts focused more on convenience and economy than enhancement.

A key need for beef development lies within the fast food segment of foodservice. In spite of significant technical support to date, fast food businesses continue to make more progress with new chicken products and promotions than with beef. MLA needs to find ways for the beef industry to better meet the needs of this important segment as well as continuing to encourage, assist and support significant new product development initiatives across all sectors on a jointly funded basis with end users and their suppliers.



- **Raising standards of quality, merchandising, consumer information and promotion within the retail and foodservice sectors**

With strong and ever increasing competition between all foods, both in retail and in foodservice, and with meal decision-making increasingly taking place at point-of-sale, the beef industry must continue to appeal to meal decision makers more successfully within that decision making environment than our competitors. This means beef must be presented in prominent, appealing and convenient ways that makes beef an easy option for tonight's meal.

MLA should work across all retail and foodservice groups with customer research, retail and menu initiatives, point-of-sale support, store training support, supply chain facilitation and category management planning to ensure red meat retains its leading category position.

WHAT IS NEEDED?

Cattle levy contributions to deliver the domestic program priorities should be:

	2008-09 \$'000	2014-15 \$'000
1. Integrity communications**	812	1,570
2. Further improve eating quality#	600	600
3. Beef meals education & promotion*	4,620	5,400
4. Nutrition promotion**	4,639	4,900
5. New product promotion**	715	715
6. Retail/foodservice standards & promotion**	2,425	2,600

* Meat processor levies and # sheepmeat levy funds also make valuable contributions to these programs and it is anticipated these contributions will continue.

WHAT WILL THIS DELIVER?

The Committee expects that this program will benefit both the immediate and longer term performance of the industry by growing consumer expenditure on beef from \$6.6 billion in 2008 to reach \$7.5 billion by 2014.

This will be achieved by:

- countering ill-informed calls to reduce red meat consumption on environmental and welfare grounds and maintain the current high levels of community trust;
- further raising consumer satisfaction in beef eating quality with beef continuing to rate higher than competitor proteins;
- further strengthening recognition of red meat's essential role in a healthy family diet;
- growing meal preparer confidence in buying and preparing beef, expanding beef cut and meal repertoires;
- further raising retail standards, with beef continuing as a leading category within supermarket planning and priorities; and
- maintaining leading share of menus in foodservice.

7. Australia's beef markets: challenges and opportunities – Japan



Japan

MARKET OVERVIEW

In 2008, Australian beef export volumes to Japan totalled 364,302 tonnes, worth over \$2 billion to the Australian beef industry.

Japan has remained Australia's most valuable export market since 1993, with the exception of 2002, following the impact of BSE in Japan. It is the largest export market for Australian grain-fed beef, and the second largest market for grass-fed beef.

Stable demand for Australian beef in Japan is therefore important for both the grass-fed and grain-fed sectors, providing support and stability to Australian livestock and beef prices.

Up until 2003, the Japanese beef market was evenly supplied by three main sources – Australia, the US and domestic beef production.

When the US was banned from the Japanese market in December 2003, Japan was suddenly devoid of a third of their beef supply. Within this window, the Australian beef industry took up the challenge to expand the customer base in Japan to help fill the gap in supply.

Significant investment by the Australian beef industry saw an additional 109,987 tonnes of Australian beef exports generated per year, worth on average an extra \$775.5 million to the industry.

The US re-entered the Japanese market in July 2006, and is continuing to strive to build up their customer base to regain market share.

CURRENT SITUATION

Australia has grown its share of the imported beef market in Japan from 48% in 2001 to 78% in 2008. Strong trade and consumer preference for Australian beef that was built up during the period that US beef was absent from the market has stemmed the erosion of market share back to the US.

Of the total Japanese beef market, Australia currently supplies 44%, Japan supplies 44%, the US 7%, and others (mainly NZ and Mexico) supply 5%.

With improved supply conditions in Australia, a strong Japanese yen, and firm demand, Australian beef exports to Japan for 2009 are forecast to remain firm, despite the global financial crisis.

Although competition from the US is likely to intensify over the next few years, Australian beef is well positioned – through well established supply chains and a strong consumer loyalty towards the Aussie Beef brand – to boost its beef exports as total beef consumption in Japan expands again.

The Aussie Beef brand is well known in Japan, with almost 100% recognition amongst our target audience (Japanese shoppers, 25–65 years old). The brand is firmly positioned in the market with a reputation of being a reliable supplier of safe beef, which meets the average Japanese consumer's demand for everyday meals.

A recent survey³ amongst Japanese shoppers revealed that 90% of consumers consider country of origin when purchasing beef, and 80% feel confident to purchase Australian beef for their family. Furthermore, with the recession in Japan, 75% of Japanese shoppers are worried about their food budget, but on a positive note, 70% recognise that Aussie Beef offers value for money.

The strong position of the Aussie Beef brand has generated increased consumer preference loyalty towards Aussie Beef. In fact, the percentage of Japanese consumers who consider purchasing Aussie Beef has increased from 66% to 85% over the past five years⁴.

This strong support and consumer loyalty towards Aussie Beef is one of the driving forces behind the increased shelf and menu space that is dedicated to Australian beef in Japan. This consumer and end-user loyalty needs to be maintained to defend our market share and the premier imported beef supply position in the market.

³ Nielsen Company Japan, November 2008, survey of Japanese shoppers aged 25–65 years old

⁴ Synovate Japan, annual consumer brand tracking research, survey of Japanese shoppers 25–65 years old



THREATS AND OPPORTUNITIES

Threats

- **US competition for beef market share**

The key challenge for the Australian beef industry in Japan is to maintain the majority share of imports, with competition for market share from the US expected to increase over the next couple of years as age limitations are removed.

If forecasts of increased beef consumption in Japan prove correct, and if Australia maintained its current majority share, beef exports to Japan could increase by 3% per year to reach approximately 410,000 tonnes by 2015-2016, worth \$2.6 billion to the Australian beef industry. This represents an additional 45,000+ tonnes of beef exports to Japan, worth an extra \$500 million.

- **A health conscious aging population**

Japan has one of the world's fastest aging populations, and the aged sector is becoming increasingly concerned about the nutrition of the food they consume. Beef is not seen as a healthy protein in Japan and the over 65s tend to eat a traditional diet of seafood and rice – a continuation of the diet they grew up on.

With education, there is an opportunity for Australia to generate awareness and understanding of the health benefits offered by beef.

- **Eco trend gaining momentum**

Japan is currently developing a carbon emissions labelling system for a range of products, with implementation scheduled to start in late 2009. As retailers start to label food products, Australian beef must be projected in the best possible light, and seen to be proactive in terms of reducing carbon emissions.

Luckily Australia, in general, has an image in Japan of being 'clean and green' and we will need to keep developing this image to ensure the demand for Australian beef continues to grow as beef consumption expands in the future.

Opportunities

- **Beef consumption forecast to expand**

In contrast to the older sector, middle-aged and younger generations were raised on a more westernised diet that includes beef. As these groups age, it is expected they will continue their beef-based dietary habits, rather than switch to a traditional seafood-based diet. This means there is likely to be an increase in the beef eating population in the future.

While beef consumption in Japan has been relatively weak since it peaked in the year 2000, all major international forecasting agencies expect Japanese beef consumption to increase over the next five years by approximately 200,000 tonnes.

With Japanese domestic beef production forecast to slowly decline over this same period, the increased consumption will be entirely sourced from imported beef.

- **Demand for value and eating quality**

Like all consumers around the world, Japanese consumers have become much more 'value' conscious, looking for good eating quality at reasonable prices.

As more Australian exporters incorporate the Eating Quality Assurance (EQA) program into their business with Japan, it is expected the overall quality image of Australian beef in Japan will continue to improve.

Assuming no further major shifts in the A\$/yen exchange rate, Australian beef offers a strong value proposition – reasonable prices with good eating quality – both important to retain the premier supply position in the market.

- **FTA with Japan to improve market access**

Australia is currently in negotiations with Japan to develop a free trade agreement (FTA). While these negotiations are in their early stages, if the FTA is achieved, this could provide immense support for Australian beef in Japan, helping us maintain the majority market share of imports and benefit from the forecast increase in beef consumption in Japan.

7. Australia's beef markets: challenges and opportunities – Japan and Korea



WHAT SHOULD MLA DO?

MLA's primary goal in the Japanese market must be to maintain majority market share of both chilled and frozen beef imports, and maintain consumer preference and loyalty towards Aussie Beef as beef consumption increases.

The programs endorsed by the Committee to pursue this strategy can be summarised as follows:

Trade

Continue to strengthen relationships with the trade to retain the positive perceptions towards Australian beef and preference over US beef by:

- delivering technical skill seminars to expand knowledge of Australian beef safety and quality attributes; and
- participating in targeted trade shows to reinforce Australian beef attributes to key buyers.

Retail

Ensure Australian beef is permanently stocked by the major national and regional retail chains by:

- collaborating with the major retail chains to conduct customised promotions for Australian beef over peak consumption periods; and
- working with retail butchers to expand merchandising skills for a range of Australian beef cuts.

Foodservice

Defend Australia's penetration through all segments of the foodservice sector from fast food to fine dining by:

- identifying Aussie Beef in menus to ensure commitment and customer loyalty; and
- educating chefs about the safety and quality attributes of Aussie Beef to expand the range of cuts and demonstrate the versatility of Aussie Beef to meet their needs.

Exporters

In collaboration with Australian exporters, develop customised marketing activities to raise understanding of the particular attributes offered by different brands, particularly safety and eating quality.

Consumers

Keep Aussie Beef top of mind of Japanese consumers by undertaking a range of marketing activities that continue to raise awareness of Australian beef's safety, quality and health attributes by:

- supporting peak consumption period promotions with national newspaper advertisements in association with major retailers;
- conducting seminars to educate consumers about the safe and healthy attributes of Aussie Beef and provide recipe suggestions for everyday meal solutions;
- developing a health benefits program to develop a healthy image for Aussie Beef and boost beef purchase frequency; and
- conducting events for the different age groups (younger, middle and elderly) to generate loyalty amongst all age groups.

WHAT IS NEEDED?

Cattle levy contributions to deliver against these priorities should be:

	2008-09 \$'000	2014-15 \$'000
Japan	8,382	9,000

WHAT WILL THIS DELIVER?

The Committee expects that this program will benefit the industry by exports of Australian beef to Japan expanding from \$2.1 billion in 2008 to reach \$2.4 billion by 2014.

This will be achieved by:

- trade, retail, foodservice and consumer sectors continuing to prefer Australian beef over other imported product;
- consumer purchase consideration for Aussie Beef continuing at very high levels;
- safe image of Aussie Beef being maintained; and
- healthy image of Aussie Beef increasing to become one of the major purchase drivers for Australian beef.



Korea

MARKET OVERVIEW

The Australian industry has achieved a significant foothold in Korea since the US was locked out of the market in December 2003. With only New Zealand and Mexico as competitors, Australian beef exports to this market have increased.

Total shipments of beef to Korea in 2008 were 127,207 tonnes swt – 21,723 tonnes short of the 2007 record and 104% greater than 2003 – with a value of A\$730 million to Australian exporters. This is despite the full return of US beef into the market in September 2008, volatility in foreign exchange rates, the global financial crisis and the ability of the Russian market to pay higher prices for cuts that would normally have been destined for Korea.

The exclusion of the US, while advantageous in the short term for Australia, resulted in a fall of Korean beef consumption from 8.1kg per capita in 2003 to 6.8kg per capita in 2004. Consumption increased to 7.5kg per capita in 2007, and has further increased in 2008, in particular since the US return to the market in September. However, the full potential of this market is still to be realised, with consumption expected to double in the longer term.

CURRENT SITUATION

The strategy and achievements over the past five years have positioned Australia well in preparation for the return of competition to the market. Supply chains and relationships have strengthened, and the distribution and penetration of Australian beef through the retail and foodservice sector is at an all time high. The return of the US to the market will continue to provide challenges in 2009 and beyond. It is anticipated that US beef sales will expand quickly and capture about half of the imported beef share in 2009. The challenge for the Australian industry is to hold market share in a market no longer almost exclusive to Australia. However, the US return is essential to the stability of the trading environment, rebuilding beef consumption to pre-BSE levels and alleviating lingering food safety fears amongst consumers. Renewed focus and marketing efforts by the US

and the Korean domestic beef industries will have a positive impact on overall beef consumption, and much of the extra beef coming into the Korean market will be taken up in increased consumption.

THREATS AND OPPORTUNITIES

Threats

- **Losing market share to the US**

The US is making a concerted effort and investing considerable funds into their goal of winning back market share in Korea, which they view as their flagship export destination. This presents a major challenge for Australia – to ensure importers, retail and foodservice operators remain loyal to Australian product, drawing on relationships formed and fortified over the past four years – however, it also has the potential to speed up the return and growth of consumption in Korea.

- **Country of origin labelling**

The implementation of a country of origin law for beef, lamb, pork and chicken is expected to have an initial impact on sales.

- **The 'wellbeing' trend**

Childhood obesity is an increasing problem in Korea, and the 'wellbeing' trend in Korea carries with it a perception that beef is fattening and therefore a special occasion product.

- **Supply chain issues**

Australian exporters often sell to a number of different importers, which can result in price discrepancies on the same product and cause financial hardship for the importer/wholesaler, which results in product being dumped into the wholesale market, undermining export sales and prices.

There is a lack of understanding of the Australian ordering system, which can lead to dissatisfaction with product not matching expectations.

Like all markets, Korean consumers have a preference for certain cuts and wish to purchase

7. Australia's beef markets: challenges and opportunities – Korea



these in large volumes. Australia is often unable to supply these volumes, frequently requiring customers to take packaged sales or full sets (or variations on full sets).

Opportunities

- **Regaining lost beef consumption and then growing it to its full potential**

Beef consumption fell significantly in 2004 following the outbreak of BSE in Canada and the US. Consumption has since recovered, but remains below pre-BSE levels. The difference in consumption between 2003 and 2008 equates to 65,000 tonnes shipped weight.

Growing levels of total beef consumption in Korea offers the possibility of Australia holding and ultimately growing volumes while the US gains in market share – provided Australian beef is marketed effectively.

- **Growth in retail and foodservice sectors**

The increase in double income families and breakdown of extended families in Korea will inevitably lead to more eating out and the purchase of pre-prepared foods.

Large-scale retail now accounts for around 50% of retail beef sales – a shift that offers an opportunity to expand Australian beef campaigns into major regional areas to grow high quality beef sales, chilled and grain-fed and grass-fed beef.

Family restaurants and five star hotels are flagships for high quality Australian beef in Korea, and are set to experience growth over the coming five years; while catering, military and the fast food sector are high volume users of Australian grass-fed and frozen beef, but price sensitive.

The Korean restaurants sector is a significant user of Australian beef, and the increased number of chains in this sector provides an area of opportunity.

- **Ratifying an Australia–Korea FTA**

The ratification of the KORUS FTA could happen

at anytime, and negotiations on a Korea–Australia FTA will commence in mid 2009.

WHAT SHOULD MLA DO?

MLA's immediate goal in the Korean market must be to hold onto the gains made in the absence of our biggest competitor – the US – by ensuring loyalty to Australian beef, and working with stakeholders to recover beef consumption. It is therefore of great importance that MLA continues the work with the flagship *Hoju Chung Jung Woo* (HCW – 'Australian beef – clean and safe') logo; and continues to ensure awareness by both consumers and trade on the quality and safety systems that underpin it.

Critical to Australia's longer term positioning in the Korean market are access arrangements, so strong advocacy of the Australia–Korea FTA is crucial, through assistance to the Australian Government and facilitating relationships with the local Korean producer groups and Government agencies.

Retail

- Compete aggressively for cabinet space in this high profile battleground for Australian and US beef, with effective point-of-sale materials and sampling programs.
- Continue the *Hoju Chung Jung Woo* campaign to maintain brand awareness, including the in-store promotion program.
- Harness the current move from service counter to pre-packaged retail ready product to capture the benefits in the form of locking in supply chains.
- Continue the 'kids love beef' campaign to build the image and awareness of Australian beef as 'safe, tasty and nutritious', and further develop the focus on children and the importance of safe Australian beef in their diets.
- Facilitate relationships between importers and end users to reduce supply chain inefficiencies and improve consistency of supply by working with commercial partners via ICAs to drive exporter branding of premium Australian beef.
- Challenge the seasonal popularity of pork and chicken by providing education about the



nutritional attributes of Australian beef – such as low fat, high protein etc.

Foodservice

- Develop point-of-sale material for restaurants that must now denote country of origin.
- Deliver trade education for wholesalers to the Korean restaurant sector.
- Run a major nutritional program focused on children and the need to ensure healthy and safe eating.
- Target sectors of retail and foodservice which appeal to younger consumers – such as family restaurants and large-scale retailers – to introduce and educate about new products.

Trade

- In conjunction with exporters, and underpinning supplier brands, role out the Eating Quality Assured program (EQA) to Korean end users.
- Invest in the improved understanding of the requirements of the further processing/value adding sectors.
- Facilitate brand development to differentiate suppliers' product, including at retail, foodservice, and boutique restaurants etc.
- Continue education on how to use the Australian beef ordering system.

WHAT IS NEEDED?

Cattle levy contributions to deliver against these priorities should be:

	2008-09 \$'000	2014-15 \$'000
Korea	5,050	5,300

WHAT WILL THIS DELIVER?

The Committee expects that this program will benefit the industry by exports of Australian beef to Korea expanding from \$691 million in 2008 to reach \$1 billion by 2014.

This will be achieved by:

- Maintaining loyalty and preference to Australian beef by the trade over 2003 levels.
- Ensuring Australian beef remains on the menus and shelves of all Korean foodservice and retail operators currently using Australian beef.
- Maintaining the clean and safe image of Australian beef, while building on the taste, enjoyment and nutritious attributes.
- Being the facilitator of supply chain growth initiatives between exporters and importers via Industry Collaborative Agreements (ICAs).
- An increase in consumer awareness and acceptance of Australian beef.
- Ensuring that the majority of marketing activities are directed at growing consumption of beef.

7. Australia's beef markets: challenges and opportunities – North America



North America

MARKET OVERVIEW

The United States is the largest beef market in the world, consuming nearly 13 million tonnes of beef per year.

The US has evolved from an almost exclusive manufacturing beef market for Australia, to a more complex market with a growing demand for imported chilled cuts. In 1998, only 0.2% of Australia's shipments to the US were chilled. In 2008, 13% of exports were chilled cuts.

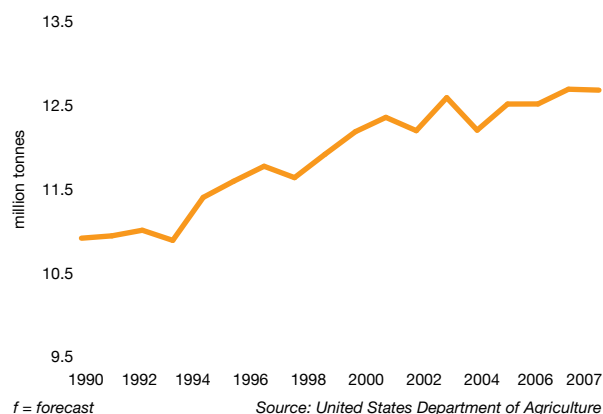
The key factors affecting Australian beef exports to the US are:

- US beef demand;
- US beef supply;
- export demand from third countries;
- other beef supply countries;
- US pork and poultry supplies; and
- exchange rates.

US beef demand

US consumers are a growing group of committed beef eaters. The US population continues to grow at a greater rate than any other developed country, from 250 million in 1990 to over 305 million today. Per capita beef consumption has slowly declined over time from 44kg in 1990 to 41.2kg in 2008. However, this decline has been more than offset by population growth.

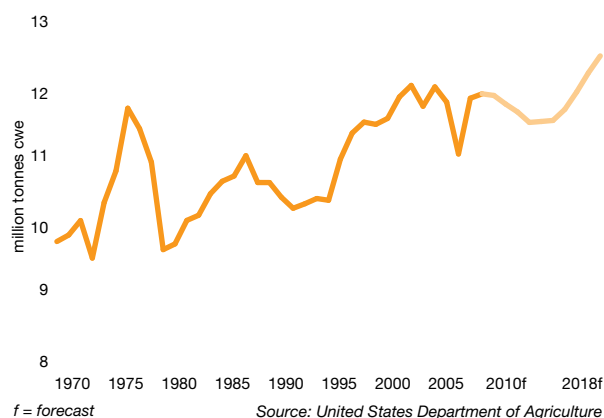
Annual US beef consumption



US beef supply

While total US beef consumption continues to grow, production remains flat. In 2009, Cattle-Fax predicts US beef production will be 26.5 billion pounds – down 0.7% from 26.7 billion in 2008. Many factors have caused the US cattle cycle to flatten, including drought conditions, increasing land values (+70% over past 5 years), increasing ethanol production, alternative land uses (eg hunting and wilderness areas), government policy (more difficult to graze federal lands) and the increasing age of the producer.

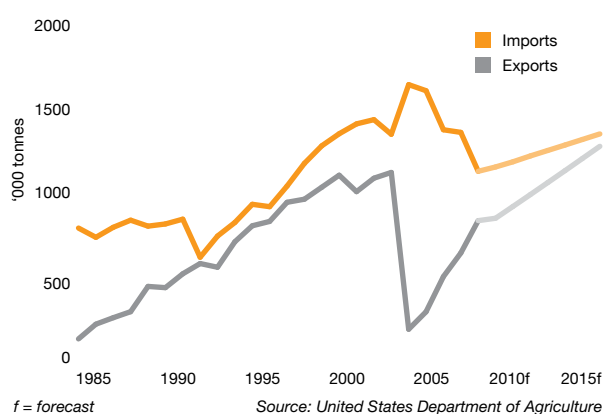
Annual US beef production



Export demand for US beef

In the US market, beef imports have 'filled the gap' between demand and the portion of US production that remains on the domestic market. Over time, as US beef exports have grown, so have US beef imports.

US beef exports and imports





The one exception to this was during the period when US beef was restricted from most major beef markets due to BSE. Fortunately, the US experienced extremely strong demand during this period and imports rose despite exports falling.

As US beef gains more access to overseas markets (the North Asian markets in particular) a growing beef shortfall will emerge on the domestic market creating more demand for imported beef. The USDA forecasts that both US exports and imports will continue to grow into the future.

Competitors

The US continues to source fresh and frozen beef only from countries free from foot and mouth disease (FMD). Uruguay is the only significant South American beef supplier with US market access for fresh and frozen beef. Beef exported from Brazil and Argentina to the US is cooked product. Both Argentina and Brazil continue to seek access to the US market for their fresh and frozen beef.

CURRENT SITUATION

2008 was a difficult year for Australian beef exports to the US with only 232,283 tonnes shipped – down 22% compared to 2007. Chilled beef exports were

down 19%, to 30,283 tonnes, and frozen beef exports were down 22%, to 202,087. Strong demand for Australian beef from third markets (Russia and Japan in particular) was the major factor impacting the trade with the US. Other factors included a strong Australian dollar, high US cow slaughter and slightly lower Australian beef production in 2008 (1.3% lower than 2007).

Australia exports three main categories of beef products to the US market (see table below).

The financial crisis is having a significant impact on meat sales in the US. Lack of job security is causing consumers to tighten their belts and trade down at foodservice and retail. This is good news for hamburger and ground (mince) beef sales, but the future of the cuts trade is more uncertain. Now more than ever, end-users are looking for value propositions for their menus and meat cases to maintain sales.

It is important to remember that Australian beef represents a small share of the US beef market. In 2008, total US beef consumption was 12.4 million tonnes (cw) and 9.2% of this was imported beef (1.2 million tonnes). In 2008, Australia was the second largest supplier to the US (Canada was the largest) – but represented just 2.4% of the US beef market.

Australian beef exports to the United States

	2008 export volume	% of total exports	Usage
Chilled cuts	30,283 tonnes	13%	<ul style="list-style-type: none"> Generally chilled middle meats supply either US retail accounts or US foodservice operations. The chilled non-loin cuts are further processed into deli meats and other value-added products like Philly cheesesteaks, kebabs, fajitas etc.
Frozen cuts	57,434 tonnes	25%	<ul style="list-style-type: none"> Generally the frozen tenderloins, striploins, cube rolls and rumps supply the foodservice sector. The other frozen cuts are used for value-added products.
Manufacturing beef	144,653 tonnes	62%	<ul style="list-style-type: none"> Australia exports lean manufacturing beef to the US. It is mixed with the higher-fat US grain-fed beef trim to produce hamburger patties for foodservice and retail. It is also used for ground beef (beef mince) at retail. 90 Chemical Lean (CL) is the most common trim category, followed by 95CL and 85CL.

7. Australia's beef markets: challenges and opportunities – North America



THREATS AND OPPORTUNITIES

Threats

- The financial crisis is having a significant impact on US beef demand and the volatile US\$/A\$ exchange rate is affecting international beef trade.
- Australian beef has a very small market share in the US and low awareness of its positive attributes.
- There is growing concern in the US regarding the safety of imported products and an increasing trend to buy local.
- The Australian industry has difficulties ensuring year-round supply to develop loyal accounts.
- Mandatory country of origin labelling was introduced in 2008 for the US retail sector.
- Australian beef faces a 20–25% tariff when entering the Mexican market, while US and Canadian beef is duty free under NAFTA (in 2008 Mexico was the largest beef export market for the US, with exports exceeding US\$1 billion).

Opportunities

- Flat US beef production and a growing US population provide long term opportunities for Australian beef exports to the US. Despite US consumers' preference for domestically produced beef, the US beef industry is not able to meet the growing US population's beef demand and recovering export demand. These basic fundamentals make the US market a strong prospect for Australian beef in the future.
- The US has the potential to be an alternative premium market for Australian chilled beef, with an opportunity to further differentiate and promote individual Australian beef brands to grow demand, as well as improving product consistency by underpinning company brands with the Eating Quality Assured (EQA) program.
- There is an opportunity to collaborate with livestock organisations internationally to minimise the impact of climate change on red meat production.

WHAT SHOULD MLA DO?

For MLA to deliver a successful Australian beef marketing strategy in North America it must take into account:

- The relative market share of Australian beef – new opportunities must be suitable for a smaller supplier, for example, niche markets.
- The complicated distribution network in North America – activities must be coordinated to ensure that demand-generating ('pull') activities are coordinated with a ready supply chain.
- Current and future competitors – programs must be targeted to areas where there are long term opportunities.

MLA's strategic imperatives for the US market should be to work alongside commercial industry partners to maximise sustainable returns to the Australian beef industry by:

- building and maintaining awareness and loyalty for Australian beef amongst the trade and consumers;
- positioning Australian beef's consistency, value, integrity and range;
- developing industry capability in export marketing, planning and brand positioning; and
- allocating funds to reflect long term opportunities.

Retail

Australian beef has a low presence in retail. Traditionally, retailers have maintained a domestic beef category, with imported beef sold as an alternative offer. Despite this, the US retail sector is a very important market for Australian beef because while Australia exports large volumes of chilled fore- and hindquarter beef cuts to North Asia, the US retail market absorbs high volumes of chilled middle meats. Therefore, strengthening US retail demand for chilled middle meats will increase the overall carcass value of Australian beef.

In order to attract US consumers, Australian beef must offer a point of difference. These points of difference tend to fall into two categories: niche



products, such as grass-fed, organic and naturally raised; and value-for-money products.

Australian beef has an opportunity to increase its presence in retail by identifying and developing new accounts for Australian beef – both chilled cuts and cooked meal solutions.

Foodservice

Large volumes of Australian chilled and frozen loin cuts are sold to the foodservice sector, where the objective is to promote loyalty for Australian beef at the trade level, rather than the consumer level. By focusing on the trade, MLA works to influence the ‘gate keepers’ and open up new opportunities for Australian beef.

While awareness of Australian beef is relatively low amongst the North America foodservice trade, Australian beef has a number of features and benefits of interest to the foodservice sector, including:

- value – cost-competitive, aged prior to arrival, high yield, smaller carton size (lower wastage);
- integrity – ISO-certified HACCP safety systems, traceability and long shelf life; and
- variety – grain-fed, grass-fed, natural, organic, Wagyu, Angus, etc.

MLA must continue to implement programs that increase awareness among US foodservice professionals of the positive attributes of Australian beef.

WHAT IS NEEDED?

The estimated cost of the North America beef marketing program is about A\$1.4 million per year.

Cattle levy contributions to deliver against these priorities should be:

	2008-09 \$'000	2014-15 \$'000
North America	874	1,200

WHAT WILL THIS DELIVER?

The Committee expects that this program will benefit the industry by exports of Australian beef to North America expanding from \$1.3 billion in 2008-09 to reach \$1.9 billion by 2014-15.

This will be achieved by:

- protecting and further developing our manufacturing business in North America;
- pursuing improved access conditions into Mexico;
- increasing opportunities for Australian beef in the US retail sector;
- increasing awareness of the positive attributes of Australian beef amongst the US trade;
- increasing the volume of chilled Australian beef promoted through ICA agreements; and
- leveraging the Eating Quality Assured (EQA) program to develop new opportunities for Australian beef brands in the United States.

7. Australia's beef markets: challenges and opportunities – South-East Asia/Chinas



South-East Asia/Chinas

MARKET OVERVIEW

The volume of Australian beef exports to the South-East Asia/Chinas region increased by 22% over the past decade, from 78,843 tonnes swt in 1996 to 96,063 in 2008. The break-up of product to this region has historically been dominated by frozen grass-fed product, with Indonesia (mainly manufacturing product) and Taiwan (shin shank) accounting for the majority of frozen Australian beef exports to the region.

The entry of Indian buffalo and Brazilian beef into the Philippines market resulted in a decrease of exports of Australian manufacturing beef from 20,493 tonnes swt in 1996 to 2,071 tonnes swt in 2004. In 2008, Australian beef exports rebounded to 14,857, largely due to the rise in Brazilian beef prices. Australian exports to Indonesia have also been volatile, going from 16,615 tonnes swt in 1996 to 7,127 tonnes swt in 2004 as a result of the Asian economic crisis and other factors. In the past few years, Australian beef exports to Indonesia have recovered and continue to grow. In 2008 exports reached 33,018 tonnes swt from 29,788 tonnes swt in 2007.

The value of Australian beef exports to South-East Asia/Chinas increased dramatically from \$200 million in 1996 to \$434 million in 2008 – a 177% rise.

Although rising gradually, from 4.4kg per year in 1996 to 5.6kg in 2007, consumption of beef for the South-East Asia/Chinas region is quite low in comparison to more traditional protein sources such as chicken, pork and seafood. This is a key issue in viewing the long term potential of Australian beef exports to the region.

THREATS AND OPPORTUNITIES

Threats

- Market access problems particularly in Indonesia, China, Malaysia and Thailand.
- A strong taste preference for pork, chicken and seafood, particularly among the Chinese, and prices that favour these alternate proteins.
- Low cost beef supplies from Brazil, competing with Australian beef, across most of the region.

- The economic downturn, which will not only slow the increase in protein consumption generally across the region, but will also cause shifts towards more affordable and traditional protein sources (pork, chicken and seafood), and low cost beef suppliers.
- Lack of knowledge and misapprehension of the nutritional benefits of beef consumption.

Opportunities

- Growing incomes are resulting in growing levels of protein consumption in the South-East Asia/Chinas region. Indeed, a combination of population growth and income growth is resulting in beef consumption levels in Asia growing proportionately faster than for any other region in the world.
- The younger generation in Asia is showing a willingness to experiment and to purchase types of protein not traditionally consumed in this region.
- The fact that beef has not been a traditionally consumed protein opens up greater possibilities for sale of beef by usage, rather than sale by cut.
- Communicating the nutritional benefits of beef consumption, particularly with respect to childrens' brain development and physical enhancement, and also iron deficiency in adolescent and pre-menopausal women, offers the potential to further increase consumption levels.
- Childhood obesity is becoming a significant issue in the region providing an opportunity for Australian beef to position itself in a healthy diet.
- Australia's proximity to the growing region and our reputation as a quality beef supplier offers potential to secure supply chains to counter the threat from low cost suppliers. New business for supply chains can be generated through business development activities. More than most other regions, an opportunity exists in this region to drive sales through marketing/supply chain support of individual Australian brands.

WHAT SHOULD MLA DO?

MLA's strategy for the South-East Asia/Chinas region should be to implement programs that address the opportunities and threats identified above, and work with commercial industry partners to maximise



sustainable returns for the Australian industry, by:

• **Addressing market access problems**

MLA's in-market representatives should continue to closely monitor market access issues across the region, provide regular reports to industry and Government and provide a response capability in the case of adverse events.

• **Building market intelligence**

MLA must continue to build market intelligence to improve the understanding of specific market conditions in the region, including an improved understanding of our competitors' positions and shifts in demand in markets across the region.

• **Building and maintaining awareness of and loyalty to Australian beef**

ICA programs play a key role in maintaining strong supply chains in the established markets of Singapore, Taiwan and Hong Kong and have allowed Australia to compete with the entry of low cost suppliers.

Market research over the past 12 months has highlighted the increased awareness in the region regarding the importance of nutrition. MLA should implement a strategy promoting the nutritional benefits of Australian beef in assisting the growth and brain development of children.

• **Positioning Australian beef's consistency, value, integrity and range**

Programs must continue to position Australian beef on the attributes of consistency, value, integrity and range, by:

- working with Australian exporters and generate new business opportunities;
- conducting training with end-users to increase product development with an emphasis on alternative cuts;
- building trade networks with local meat distributors to create opportunities for Australian exporters;
- inaugurating training programs with importers to educate them on Australia's production/integrity

systems, grading, product range, handling and usage; and

- conducting importer missions to educate end-users on Australia's beef safety systems and range of available cuts.

• **Allocating funds to reflect long term opportunities**

Industry should be focused on emerging markets such as Indonesia, China, Malaysia and the Philippines. It is important to note that the established markets of Singapore, Taiwan and Hong Kong are supported through strong ICA programs which will continue to be implemented.

WHAT IS NEEDED?

Cattle levy contributions to deliver against these priorities should be:

	2008-09 \$'000	2014-15 \$'000
South-East Asia/Chinas	2,061	3,300

WHAT WILL THIS DELIVER?

The Committee expects that this program will benefit the industry by exports of Australian beef to South-East Asia/Chinas expanding from \$434 million in 2008 to reach \$700 million by 2014.

This will be achieved by:

- sustaining and building relationships to defend and improve market access conditions within the region;
- improving consumer awareness and acceptance of Australian beef through increased consumer perceptions of the nutritional attributes of beef;
- stimulating overall growth in beef consumption across the region;
- increasing the presence of Australian beef at retail by leveraging supply chain relationships in partnership with industry; and
- strengthening market position in the foodservice fine dining segment and increasing penetration into the high volume foodservice sector.

7. Australia's beef markets: challenges and opportunities – Middle East/Africa



Middle East/Africa

MARKET OVERVIEW

From a marketing perspective the Middle East region is complex, being made up of fifteen countries with significant differences in culture, economies and infrastructure, and often with unstable governments.

The region has traditionally been a major destination for Australian sheepmeat and a minor one for beef. Until the 2003 outbreak of BSE in the US, US beef enjoyed the highest reputation with the executive chefs in the five star hotels of the dramatically developing Dubai and other Gulf Cooperation Council (GCC) locations.

Following the ban of US beef throughout the region in 2003, Australian exporters seized the opportunities which emerged, and the industry funded a beef marketing strategy. These efforts were particularly successful in Dubai, and for the past five years, high quality Australian table beef has commanded the five star foodservice sector.

With the growth in confidence that developed, and the assistance of more competitive Australian prices, increased volumes of Australian beef were being presented at retail.

THE CURRENT SITUATION

In 2008, beef and veal volumes made strong gains, increasing 191%, from 4,992 tonnes in 2007 to 14,516 tonnes in 2008. The most outstanding growth was seen in Saudi Arabia, where sales volumes lifted dramatically by 307%, from 897 tonnes to 3,650 tonnes. This increase was predominantly for manufacturing beef. This growth has been driven by a lower A\$ and shortages of Brazilian stock, much of which was diverted to the Russian market. There is no doubt that the food safety and animal health reputation of Australian meat has assisted.

In 2008, veal comprised 12% of beef exports (increasing 207% from 1,190 tonnes to 1,763 tonnes) and grain-fed beef sales comprised 3.6% of total volume. Significant growth in beef exports also continued to be seen in Kuwait (+124%), UAE

(+139%), Jordan (+367%) and 'other' Middle Eastern countries (mostly Egypt) (+932%).

Throughout 2008, Australian beef penetration into regional supermarket retailing increased significantly, with the number of stores carrying Australian beef leaping from 29 stores to 57. All major chains have been carrying and identifying Australian beef, and sales volumes of butt cuts increased 154%, from 1,095 million tonnes in 2007 to 2,791 million tonnes.

Penetration of the five star foodservice sector was particularly impressive in 2008, aided by industry sponsored restaurant promotions across the region; chef education on alternative cuts and beef cooking competitions for young chefs. This sector, however, will be subject to reduced demand in Dubai due to the global recession and increased vigour of USMEF marketing.

Across the region, a spectacular lift in sales volumes of Australian manufacturing beef for products for family restaurants and frozen retail products was evident, with a 464% increase, from 1,094 million tonnes in 2007 to 6,170 million tonnes in 2008. This meat is mostly applied to the production of fast food and frozen retail products; hamburgers, kebabs, mince etc.

THREATS AND OPPORTUNITIES

Threats

- The economic downturn will particularly affect the five star foodservice and airline catering sectors.
- The drop in oil prices will impact on infrastructure development in the region and result in a reduction in numbers of expatriate workers.
- In the manufacturing sector, low cost beef supplies from Brazil and India will compete with Australian manufacturing beef.
- The return of US beef to the region will see increased marketing activity by USMEF.
- Market access issues continue across much of the region.

Opportunities

- The region's population is expected to more than



double by 2050, to reach 649 million, with associated increased demand for meat and livestock.

- The development of modern retailing, particularly hypermarkets, continues to increase at pace across the region. Competition between these retailers is resulting in a need for differentiation, opportunities for category management, food safety training and other support.
- Opportunities exist for development of new markets in North Africa. Extensive tourist and residential development has recently been undertaken in Morocco, Tunisia, Libya and the Red Sea coast traditional, local supply is unable to meet the resulting demand.
- Food safety is growing in priority and represents the strongest card in the Australian meat exporting deck. Government officials and importers across the region speak glowingly of Australia's reputation for food safety, phytosanitary controls, on-farm systems and traceability. Maintaining the integrity of these processes is fundamental to maintaining a superior price differential over our competitors.
- There are promising signs for free trade agreements with the GCC and improved access arrangements into Morocco.
- Obesity and diabetes have reached pandemic levels in the GCC, leading to an increased focus on health and diet – a trend previously proven to present an opportunity to promote Australian beef's role in a healthy diet.

WHAT SHOULD MLA DO?

The key imperatives of the Middle East strategy must be to maintain existing market share, to continue to grow that share in established markets and, as competitive pressure is exerted on Asian beef markets, to identify new opportunities in emerging markets in this region and in markets in which Australia may have recently been uncompetitive.

Programs should:

- aggressively defend existing markets from increasing and emerging competition and develop difficult but high potential markets through:
 - an effective market access program;

- continuation of an effective communications program addressing consumers and government agencies;
- the delivery of high quality industry training programs;
- the maintenance of strong and effective retail, foodservice and trade campaigns; and
- the provision of market support; unsurpassed by competitors.
- stimulate the development of potential high volume markets in highly populated North African countries, which will require dissemination of technical and commercial knowledge to consumers, retailers, foodservice operators, importers and regulators in traditionally difficult markets;
- embrace the changing retail environment through the provision of product knowledge and market support and the development and implementation of greater tactical capability, including ICAs, to stimulate branded product recognition and sales growth;
- counter a likely contraction of high quality table beef in the Dubai five star hotel sector, by stimulating sales growth in new or developing markets, including promotions, staff training, industry tours, sponsorship of cutting and cooking competitions and close association with regional chef's societies;
- identify opportunities for increasing sales of manufacturing beef by identifying and developing relationships with food processors; and
- maintain share of growth in the region through continued product reliability and maintenance of Australia's reputation for food safety and Halal integrity, as well as animal health and food safety.

Trade

- A range of business development activities is required to continuously identify opportunities for new markets and new products, such as regional business forums, regular interviews with importers and distributors.
- Market intelligence must be gathered and

7. Australia's beef markets: challenges and opportunities – Middle East/Africa and European Union



disseminated, including the publication and distribution of regional MLA industry briefs and updates to both importers and exporters.

- Generic marketing materials, with the Australian meat/beef brand, should be utilised to support trade activities with key foodservice accounts.
- Maximise exposure of Australian meat products, production and food safety systems to importers, wholesalers, retailers, foodservice operators and consumers through participation in trade exhibitions.

Foodservice

- Sponsor young chef competitions in the region, including the provision of MLA training in use of alternative beef cuts for added value and greater profitability.
- Conduct promotions with family restaurants, featuring point-of-sale and promotional material which will highlight the compatibility of Australian beef with family expectations for safe, tasty, nutritious and prestigious food.
- Conduct training workshops and seminars for hotel and restaurant staff, covering new cuts, profitable utilisation of alternative cuts, food safety and hygiene, cold chain management and customer service and product knowledge for waiters.
- Conduct workshops to introduce Australian eating quality systems to the market.
- Maintain and further develop strong professional collaborations with regional chefs' societies and guilds.

Manufacturing

- Conduct research into the manufacturing market to closely investigate opportunities for manufacturing beef and cuts, and new markets for retail frozen foods.
- Identify and develop suitable support programs for at least one major manufacturing company.
- Provide access to MLA and/or Australian microbiological expertise to manufacturer's laboratories.

Retail

- Conduct research into the retail markets in Saudi Arabia and the Emirates to investigate opportunities with new or expanding interests.
- Investigate and monitor retail development in other markets such as Egypt, Morocco and Lebanon where significant new investment has been heralded.
- Continue the program of collaborative retail promotion with targeted supermarket chains, co-operatives and selected butcheries, featuring Australian beef primal cuts.

WHAT IS NEEDED?

Current resourcing of \$0.3 million, when combined with exporter contributions through the ICA program, is likely to be sufficient for the foreseeable future. Funds may be increased or reduced in response to market developments.

Cattle levy contributions to deliver against these priorities should be:

	2008-09 \$'000	2014-15 \$'000
Middle East/Africa	228	300

WHAT WILL THIS DELIVER?

The Committee expects that this program will benefit the industry by exports of Australian beef to the Middle East/Africa region expanding from \$84 million in 2008 to reach \$110 million by 2014.

This will be achieved by:

- high industry satisfaction levels with MLA trade development activities;
- increased level of ICA activity in the region;
- increased shelf space and sales at retail; and
- increased penetration in targeted foodservice outlets.



European Union

MARKET OVERVIEW

In 2008, the combination of falling EU beef supplies and trade restrictions on beef from Brazil, Argentina and Uruguay contributed to a jump in Australia's beef and veal exports to the EU. Despite the High Quality Beef (HQB) restrictive quota of 7,150 tonnes, Australia exported 11,863 tonnes swt to the EU in 2008 with a value of \$136 million. Lucrative import prices in late 2008 saw quite significant volumes of beef enter the EU outside the HQB quota (either paying full duty or within other quotas) for the first time since 1998.

CURRENT SITUATION

The EU is the world's second largest consumer of beef after the US; unfortunately, however, current quotas and high tariffs restrict growth for Australian beef. The World Trade Organization (WTO) process is the focus for increasing Australian beef access into the EU, however progress on the Doha Round of talks is unlikely to move ahead in the immediate future due to attention on the current global financial crisis and the change in US administration.

Forecasts predict moderate falls in EU consumption and production for 2009, and Australian shipments are expected to ease by 16% to 10,000 tonnes swt.

THREATS AND OPPORTUNITIES

Threats

- The downturn in the EU economy, and associated recession in some EU countries, is significantly affecting consumer spending patterns. This, in turn, will likely have a negative impact on high value protein items including loin cuts of beef.
- The number of Brazilian farms accredited to supply the EU, while small, continues to expand each week.
- The EU is exploring an FTA with Mercosur, which would provide favourable access conditions for South American suppliers.

- There is increasing advocacy to purchase local food on economic and environmental grounds.

Opportunities

- Improved access via a favourable outcome to the WTO negotiations.
- EU beef production is forecast to fall moderately in 2009, with the gap between production and consumption being met by net imports. By 2010, this shortfall could be as much as 600,000 tonnes.
- Rationalisation of EU beef industries is occurring, beginning with the UK and France, with closure of many abattoirs and merging of smaller companies with larger conglomerates.

WHAT SHOULD MLA DO?

The key strategic market priorities for the EU are to ensure improvements in red meat access to the EU remains a top priority with Australian trade officials, and to continue to build and maintain awareness and loyalty for Australian chilled beef among the trade.

The programs endorsed to deliver on this strategy can be summarised as follows:

- Trade activities focusing on networking and marketing activities that raise awareness of the quality attributes of Australian beef, and participation in trade shows which showcase Australian products for the foodservice and retail sector.
- Assisting exporters and importers in the maintenance and development of their trade business relationships, and seeking new opportunities within the market.
- Monitoring competitor positions and demand trends and distributing market information/intelligence to both importers and exporters.
- Encouraging exporter participation at key trade shows and assisting industry to generate increased business.

7. Australia's beef markets: challenges and opportunities – European Union and Russia



WHAT IS NEEDED?

Cattle levy contributions to deliver against these priorities should be:

	2008-09 \$'000	2014-15 \$'000
European Union	110	250

Note: if access issues are resolved, a slight increase in funding to the market may be justified over the medium term.

WHAT WILL THIS DELIVER?

The Committee expects that this program will benefit the industry by exports of Australian beef to Europe expanding from \$124 million in 2008 to reach \$160 million by 2014.

This will be achieved by:

- ensuring government negotiation representatives continue to accept improved beef access to the EU as a priority;
- strong trade business relationships between exporters and importers providing opportunities to quickly capture access opportunities; and
- awareness of Australian beef quality traits enhanced in the trade, foodservice and retail sectors.

Russia

MARKET OVERVIEW

Russia is the world's second largest beef importer and South America's main customer. The strength of Russia's economy on the back of revenue from energy resources allowed premium prices to be paid. As a result, Australian beef exports to Russia reached a record level of 69,763 tonnes in 2008, valued at \$282.5 million. This is in marked contrast to 2007, when only 5,100 tonnes of Australian beef was exported.

CURRENT SITUATION

Future levels of import demand by Russia for Australian manufacturing beef and secondary cuts remain uncertain, with strong competition expected from South America. However, the emergence of

quality steak restaurants in Moscow, St Petersburg and nearby cities has generated demand for Australian chilled and high quality product.

Market access into Russia continues to present challenges. Russia maintains country specific import quotas and the Russian government has implemented tighter regulatory controls over imports. Furthermore, there are severe shelf life restrictions on chilled product. The application of Russian SPS regulations, which differ from those commonly found elsewhere, has resulted in many plants from many supplying countries being temporarily suspended from the trade.

THREATS AND OPPORTUNITIES

Threats

- Credit restrictions have severely affected trade and supply relationships. The rapid downturn in the economy will affect demand for 'quality' beef products, with high-end restaurants reducing costs and struggling to maintain customers.
- Lack of trust by Russian authorities with western government food health agencies.
- Likely increased influence and interference by Russian authorities to control balance of trade and protect local agriculture production.

Opportunities

- Declining levels of Russian beef production will cause increased reliance on beef imports for sausage manufacture.
- Higher prices and supply restrictions out of South America may be longer term in nature and provide ongoing opportunities for Australia to be competitive in this market.
- Further growth in the chilled trade provided the shelf life issue can be satisfactorily addressed.

WHAT SHOULD MLA DO?

Strategies for Russia will need to ensure Australian meat has unimpeded access to the Russian market. MLA and industry should continue to build awareness and loyalty for Australian chilled beef among the trade.



The programs proposed to pursue these strategies are:

- showcase the quality attributes of Australian beef and assist with growing trade contacts by participating in trade shows in conjunction with exporters;
- use selected Australian events to position Australian beef as premium product in retail, and work with exporters to find new accounts;
- further increase awareness of beef attributes through education (shelf life, specification, eating quality and food safety record);
- continue to network with importers, exporters, Meat Importers Association and similar groups in CIS countries; and
- monitor competitor positions and demand trends and distribute market information/intelligence and updates to both importers and exporters.

WHAT IS NEEDED?

Cattle levy contributions to deliver against these priorities should be:

	2008-09 \$'000	2014-15 \$'000
Russia	266	350

WHAT WILL THIS DELIVER?

The Committee expects that this program will benefit the industry by exports of Australian beef to Russia expanding from \$241 million in 2008 to reach \$273 million by 2014.

This will be achieved by:

- providing exporters with unimpeded access and a trading environment to allow commercial activities to be conducted;
- improving relationships with the Russian veterinary organisation and exchanging of information through a signed MOU;
- exporters having a greater knowledge of Russian food import standards;
- shelf life of Australian vacuum packed beef being extended to allow commercially viable sea freighted product;
- foodservice sectors continuing to prefer Australian beef over other competitor product; and
- awareness of the safety and reliable image of Australian beef enhanced.

7. Australia's beef markets: challenges and opportunities – Live cattle exports



Live cattle exports

MARKET OVERVIEW

Australia's proximity to South-East Asia lends itself to a natural trade in Australian live cattle from northern Australia to the region.

Live cattle exports increased 21% in 2008 to reach 870,000 head – the highest annual total since 2002 (972,000 head) – and the total value of the trade was A\$644 million FOB.

The Indonesian market is Australia's most important live cattle market, with shipments in 2008 increasing 25% year-on-year to a record 651,000 head, worth A\$419 million – 75% of the total live cattle exports from Australia.

Malaysia and the Philippines markets continue to contract, with Malaysia down 43% to 20,000 head and Philippines down 50% to 10,000 head, due to price pressures from cheaper options from Brazil and India. However with the weakening of the A\$ at the end of 2008, several shipments were prepared for the Philippines for 2009.

Strong growth for the past year was also recorded for Middle East markets with a total of 44,000 head sent to Israel and 38,000 to Libya, which was recently re-opened to Australian trade.

Australia is the sole supplier of live cattle to Indonesia and provides 50% of imported boxed beef to this market (with NZ, US and Canada sharing the remaining 50%). In this dominant position, any growth in demand for beef through marketing activities is of direct benefit to Australian suppliers.

Other live cattle markets do not offer the opportunities seen in Indonesia. Malaysia is dominated by cheap Indian meat, while the Philippines has a supply of Brazilian and Indian meat and a consumer preference for pork and chicken.

Longer term opportunities may arise in Vietnam but this is likely to be a slow growth market where pork and chicken are also dominant.

Other markets in the Middle East are seen as having

some opportunity for growth as they use beef as a protein substitute for lamb and mutton due to high price and fluctuating availability of Australian sheep.

THREATS AND OPPORTUNITIES

Threats

- Market access:
 - our reliance on the Indonesia market, which currently takes 75% of live cattle exports; and
 - the risk that the Indonesian government may relax its import regulations regarding exotic diseases such as foot and mouth disease, amongst other things posing a risk to our biosecurity in northern Australia.
- The threat of alternative and cheaper supplies of beef entering the Indonesian market.
- Continued campaigns by animal activists to stop the livestock export trade.
- Consumer perception of beef.
- Key barriers to purchasing beef in Indonesia such as:
 - limited knowledge about how to cook beef meals other than rendang or buksu;
 - limited knowledge of the different cuts of beef and their potential use;
 - a perception that beef is tough, stringy and fatty; and
 - perceptions that beef is a luxury food and not for regular consumption, being bad for blood pressure and cholesterol.

Opportunities

The growing Indonesian population and relatively strong economic growth provide a strong basis for optimism for the expansion of Australian cattle exports to this market, along with:

- a very low per capita beef consumption of 2kg per head, with a population of 220 million mostly Muslim consumers who desire beef;
- its status as free from foot and mouth disease, which means it only imports from countries that are also free of the disease – Australia, New Zealand, the US and Canada;



- its declining local beef herd and growing beef demand which is increasingly being met by imported cattle and beef; and
- the rate of growth of the middle class in Indonesia creating significant numbers of new potential customers for beef.

Market research conducted in late 2007 found that while beef's dominant role is currently as a luxury product for most Indonesians, there is an opportunity for beef to play an increasing role in diets as:

- Indonesia's middle and upper classes become more health conscious; and
- there is increased emphasis on giving their children the best possible start in life, and this includes the best nutrition.

WHAT SHOULD MLA DO?

The key strategic imperative is to continue to increase demand for Australian livestock through a beef promotion strategy of consumer education, market promotional activities and trade support activities.

As Indonesia is our largest trading partner for live cattle, the focus of activities should be targeted to this market with support provided to other South-East Asian markets as required. A key factor of this program will be the joint approach between the livestock export program and the South-East Asia beef marketing program.

Trade

The proposed strategy for trade support includes focusing on building the capacity of wet market butchers to support our consumer focused promotion of nutrition and versatility of beef. This will include working with wet markets to improve the presentation and hygiene of beef sold there. Working with and training butchers in these markets on improving carcass utilisation and differentiation of cuts.

A strategy for investment in promotional activities should provide support to local brands that use beef from Australian cattle through co-investment via ICAs. These in-store promotional activities, such as development of point-of-sale material, will be targeted at underpinning the messages delivered by the

consumer awareness campaign to increase demand for local brands.

The emphasis of the program must be to engage more in market promotions – cooking demonstrations, nutritional advice and to implement advertising activities to create stronger awareness of the benefits of beef.

Consumers

The strategy for investment in consumer-based awareness programs should focus on the nutritional benefits of beef for growing children, reduce the misconception that beef is unhealthy and provide education about the different cuts of beef for different cooking styles and meal options.

These messages should be delivered through above-the-line communication programs with TV/PR print media to build demand for beef.

Consumer surveys and focus groups will be needed to continue to develop an understanding of consumer attitudes and changing trends in the Indonesian beef consumer.

Community

Despite 99.9% of all cattle exported arriving fit and healthy at their destination in recent years, animal activists who oppose the export of livestock continue to carry out public relation campaigns designed turn the community against the trade.

The current industry strategy to improve community awareness and support for the Australian livestock export trade will need to be continued. The current strategy aims to use media and events such as Royal Shows to inform and demonstrate to the community the systems and practices in place to provide high levels of care for cattle exported.

7. Australia's beef markets: challenges and opportunities – Live cattle exports



WHAT IS NEEDED?

Cattle levy contributions to deliver against these priorities should be:

	2008-09 \$'000	2014-15 \$'000
Improving welfare standards	186	186
Improving risk management	62	62
Community support	725	725
Market development	933	1,033

WHAT WILL THIS DELIVER?

The outcomes expected of this program will benefit the industry by exports of Australian live cattle expanding from \$644 million in 2008 to reach \$705 million by 2014.

This will be achieved by:

- a better understanding of the Indonesian consumer and their perceptions of beef from Australian cattle;
- increased sales volume through wet market stalls that have had promotional assistance;
- increased sales volume through retail and foodservice outlets participating in promotional activities;
- more efficient production processes and enhanced product quality;
- increased sales and consumer satisfaction from participating retailers; and
- improved knowledge and skills in handling livestock and beef from Australian cattle.

8. MLA service costs



To deliver the programs outlined in the previous chapter, MLA will incur service costs that will necessarily require marketing levy investment to operate. These programs include:

Communication with stakeholders

MLA's communication strategy aims to keep all key stakeholders, including its 45,000 members, aware of the programs their company undertakes, the opportunities created by these programs and their potential benefits to industry. This is achieved by the development and delivery of a range of information and services – such as *feedback* magazine, the MLA website, *feedbackTV* and producer events – aimed at increasing awareness, demonstrating relevance and value, and proactively engaging stakeholders.

The program costs \$1.7 million per annum and is expected to increase to \$1.9 million by 2014-15 as membership of MLA grows further.

AUS-MEAT

AUS-MEAT is the custodian of the industry's trading language and standards and is jointly owned by the Australian Meat Processor Corporation (AMPC) and MLA.

AUS-MEAT operations are split into two areas: the standards division (AUS-MEAT) and the services division (AUS-QUAL). Equal producer and processor levies are provided to fund the standards division. All costs incurred by the services division are met from revenues and from previous industry transition capitalisation.

The standards division costs MLA \$0.5 million per annum and is anticipated to be held at that level.

Corporate services

Encompassing such functions as the Board, executive, finance, legal, human resources and information technology, MLA's Corporate Services business unit provides support services, risk management, governance, budget and planning and reporting functions to MLA management and stakeholders as well as ensuring compliance with statutory and other corporate obligations.

MLA Corporate Services costs \$3.3 million per annum and is anticipated to grow to \$3.4 million by 2014-15 due to operating cost increases, but largely offset by lower depreciation costs on IT systems.

Levy collection costs

Levies are collected by the Commonwealth Department of Finance who then pass them on to MLA. The Department charges recipient organisations for the cost of providing this service.

Levy collection costs are outside MLA's control and currently run at \$0.9 million per year.



9. Beef marketing funding requirements and performance goals

In considering all the information before us, the Committee identified the following key issues to guide our recommendations:

1. Global demand for beef is forecast to increase significantly over the next decade with nearly all of this increase being met by increased production in developing countries. This means that Australia would rely even more strongly on differentiating our beef offer through quality, security and service to maintain our premier position in importing nations.
2. The global financial crisis may impact significantly on these forecasts by:
 - depressing demand growth forecasts;
 - encouraging a greater protectionist sentiment among many importing nations; or
 - seeing a greater freeing up of global trade as an economic stimulus measure; and
 - sustaining volatility in exchange rates that can impact significantly on global commodity trading.
3. Beef production in Australia is expected to increase by 14% or 304kt over the next five years with the return to more normal seasons and lower feed prices. Growth in demand for Australian beef will be necessary to match this growth in supply in order to maintain livestock prices.
4. Beef consumption in our most important export market, Japan, continues to suffer the after effects of the BSE scares. This is particularly true in the at-home/retail sector. Promotion of the nutritional value of beef in the Japanese diet is both a key need and an opportunity for the Aussie Beef brand to help rebuild demand.

Additionally, the return of US beef to Japan is likely to grow over this period, placing pressure on current Australian volumes.

5. Our business in our most important grinding market, the US, needs to be protected against potential growth in imports from South America as these areas improve their FMD status. Additionally, the US has been growing as an important chilled beef market for Australia and exploitation of niche positions offer new growth opportunities while

providing exporters a viable alternative to the North Asia markets.

6. Demand for beef remains strong in Korea, but the return of US product, plus the pending Korea–US free trade agreement, place Australian beef volumes under some threat.
7. Demand for beef in Australia is constrained by growing pressure on household budgets; by competition from the lower priced proteins of chicken and pork; by ongoing calls to limit beef consumption on health and environmental grounds; and by limited food preparation skills, particularly in young family households.
8. Security of some livestock export markets is under challenge as destination countries seek to expand their beef supply options.
9. New and emerging markets for beef will continue to be volatile and highly competitive as stable long term supply arrangements remain yet to be established.

Overall, the global beef market will be characterised by volatility and uncertainty, but where Australia has long term trading relationships, this will help protect us against much of the worst of this volatility.

Within this environment, the Australian industry must ensure flexibility and capacity to respond to threats and opportunities, as well as continue to demonstrate strong loyalty to our long term customers and markets.

Issues for marketing budget consideration

- 1. The number of cattle transactions is expected to rise over the next five years, automatically generating additional levy income for MLA programs.**

Herd rebuilding on the back of improved seasonal conditions, improved grain availability and a high proportion of female cattle is likely to see growth from 28 million head to around 30 million head over this period. Grass-fed transactions are forecast to rise from 11.6 million currently to 13.4 million and grain-fed transactions forecast to rise from 1.7 million to 2.0 million by 2014-15.



2. There are several MLA program areas that are relatively fixed in their call on marketing levy funds, irrespective of the level of income.

These include Corporate Services, Corporate Communications, levy collection costs, and the AUS-MEAT partnership. This means that any significant variation in marketing levy income will impact mainly on MLA's promotion, market access and market development activities.

3. Change in the relativity of available beef funds to lamb funds will impact on joint species programs.

For example, a change in beef funding for nutrition programs will either require a similar increase in lamb funding (if an increase), or release lamb funds for more lamb specific promotion (if a decrease).

4. As some R&D programs mature with ongoing industry servicing needs, the cost of this ongoing service moves from the R&D levy and matching Government funding to be wholly funded from the marketing levy.

Examples of this include MSA grading management, training and auditing costs, and the cost of the NLIS database and services. Funding for both of these programs has transferred to the marketing levy since the beginning of 2006, with a combined investment of \$3.6 million per year. No significant R&D programs are expected to require marketing levy funding within the next five years.

5. Program costs are expected to increase by on average 2% per annum, based on inflation.

Projected marketing levy income

With the forecast growth in cattle transactions, levy income at the current levy rate will rise by around 2% per year to reach \$55.2 million by 2014-15.

	2008-09		2014-15	
	m [#]	\$m	m [#]	\$m
Grass-fed @ \$3.66/hd	12.0	43.9	13.4	49.0
Grain-fed @ \$3.41/hd*	1.7	5.7	2.0	6.2
		\$49.6		\$55.2

[#] number of transactions ^{*}2014-15 grain-fed income based on adjusted levy rate of \$3.08/hd as of 1 April 2009

This means that, provided transaction forecasts and inflation forecasts prove reasonable, increases in current program costs over the five year period should be covered by increases in income at the current levy rate.

Program and funding needs

To meet the industry's future challenges and opportunities, the following variations to the current program priorities are recommended:

- To assist the recovery of beef consumption in Japan and Korea as well as help develop greater consumption within key South-East Asian markets, the industry should fund promotional campaigns on the importance of beef in childhood development. This strategy would build on much of the safety and taste acceptability work undertaken for Australian beef throughout Asia over the past five years.
- Increase resources for market access, with particular focus on FTAs between Australia and Korea and Australia and Japan, as well as further pressure on access barriers in the EU.
- Strengthen the defences of our livestock export trade by identifying and developing alternative markets.
- Help build exporter promotional capacity and brands through further expansion of ICAs, marketing training and product differentiation (EQA).
- Increased resources into integrity communications to complement nutrition communications in the domestic market to help counter calls to reduce red meat consumption on environmental and health grounds.

While additional funds over and above those already projected might be advocated for these activities, in reality most of these initiatives involve refocusing existing programs and priorities.

Therefore, coupled with productivity gains from ongoing fine tuning of budgets and programs, we believe that the current marketing levy rates are appropriate to address the challenges and opportunities likely to be faced by the industry over the next five years.

9. Beef marketing funding requirements and performance goals



This leads to the following indicative program budget by 2014-15.

MLA programs	2008-09 \$m	2014-15 \$m	Priority changes
Enhancing product integrity	3.2	3.1	
Maintaining and liberalising access	1.0	1.2	Increases in research and advocacy activities
Maximising market options – livestock exports	1.9	2.0	Increase emphasis on developing alternative markets
Improving eating quality	2.6	2.6	
Enhancing nutritional value	4.6	4.9	
Promoting industry integrity	0.8	1.9	Increased defence activities against welfare and environmental claims
Aggressive promotion – domestic	7.9	8.7	Expanded beef meal promotion
Aggressive promotion – export	19.9	22.8	
– Japan	8.4	9.0	
– North America	0.9	1.2	Development of niches for Australian chilled beef
– Korea	5.1	5.3	
– South-East Asia/Chinas	2.1	3.3	Greater investment in high priority emerging markets
– Middle East	0.2	0.3	
– Europe	0.4	0.6	Increased investment in Russia
– Export ICAs	2.8	3.1	Increased co-investment from exporters
Improving industry & market information	1.1	1.2	
Communication with stakeholders	1.7	1.9	Increased servicing costs with growing membership
AUS-MEAT	0.5	0.5	
Corporate services	3.3	3.4	
Levy collection costs	0.9	1.0	
TOTAL	49.4	55.2	

Performance goals

We believe that producer funds should only be invested in beef marketing programs if that investment can be shown to return real benefits to levy payers.

Independent expert analyses by Warwick Yates and Associates and by CIE have identified an annual return already to producers of the \$1.50 increase is in the range of three to eight times the investment.

We recommend that a minimum ongoing return target of three times for the full marketing investment should be set. This means the full \$3.66 marketing levy must contribute at a minimum an \$11 per head contribution to livestock prices in future performance reviews.

Further, we recommend that periodic independent expert analyses be undertaken of the major marketing programs to ensure they are each contributing to achieving this overall goal.



Appendices

Please note that full copies of the following documents pertinent to this review are available in full on the MLA website at www.mla.com.au/beeflevyreview

- Warwick Yates & Associates *Independent Review of the Effectiveness of the Additional \$1.50 Beef Marketing Levy*
- Centre for International Economics, *Drivers of Australian cattle prices*





a) Levy review process



Any change in levy rates requires the approval of the Federal Government through the Minister for Agriculture, Fisheries and Forestry. Such decisions will be based on the proposal meeting the Federal Government's levy principles and guidelines.

Under the industry memorandum of understanding that guides industry decision making, a proposal for change in levy rates may be put forward by the relevant peak councils.

Clearly, any such proposal will require broad industry and levy payer support.

These procedures provided guidance for us in our deliberations and subsequent recommendations for its communication and implementation plan. When considering industry support for the proposed change to the cattle transaction levies, we recommend that all levy payers have an opportunity to have a say.

Government principles and guidelines

The Federal Government in 1997 introduced 12 levy principles. These principles need to be met for changes to any industry levy. Subsequently, the Federal Government also introduced levy guidelines that complement the levy principles and provide guidance on the consultation process that should be followed.

The guidelines provide that the principle criteria to be satisfied are:

- Market failure: We consider the programs in which additional funds are invested will not be undertaken by commercial enterprise and therefore constitute 'market failure'.
- Net industry benefit: We believe that significant benefit will flow to all participants in the industry from success in these programs.
- Practicality of the levies: The cattle transaction levies are an existing mechanism within the beef industry and this proposal is only to maintain the levies at the current level of \$5.

The levy guidelines clarify the consultation processes expected for levy changes as follows:

- Levy payers must be informed of the proposal's purpose and intended industry benefit.
- Any proposal must be widely promoted at industry forums/meetings, in newsletters, and/or via advertising in the rural press, in advance of any vote being taken.
- The objective is that all levy payers are aware of and have an opportunity to express a view on the proposal.

We therefore recommend a communication plan to ensure that all levy payers have an opportunity to consider the proposal. This plan includes:

Industry consultation

- Producer forums around Australia
- Meetings with key industry stakeholder organisations including Cattle Council of Australia (CCA), Australian Lot Feeders' Association (ALFA), Australian Meat Industry Council (AMIC), Australian Beef Association (ABA), Australian Livestock and Property Agents Association (ALPA) and National Farmers Federation (NFF), amongst others
- Meetings with key industry companies and levy payers
- State farmer organisation conferences

Industry promotion

- Newspaper advertisements
- Documents detailing the Committee's recommendations to be distributed to all MLA members, attendees at producer forums and the media, and made available on the MLA website
- Media interviews and articles

Government

- Representatives of the Committee will meet with the Federal Government to gain endorsement of the Committee's implementation and communication procedures

Indication of support for the proposal

- We also deliberated over the most appropriate mechanism for obtaining the views of levy payers directly and recommend a vote by MLA members



at the 2009 Annual General Meeting in conjunction with a poll of non-member beef levy payers – more details are provided below.

Mechanism to obtain support

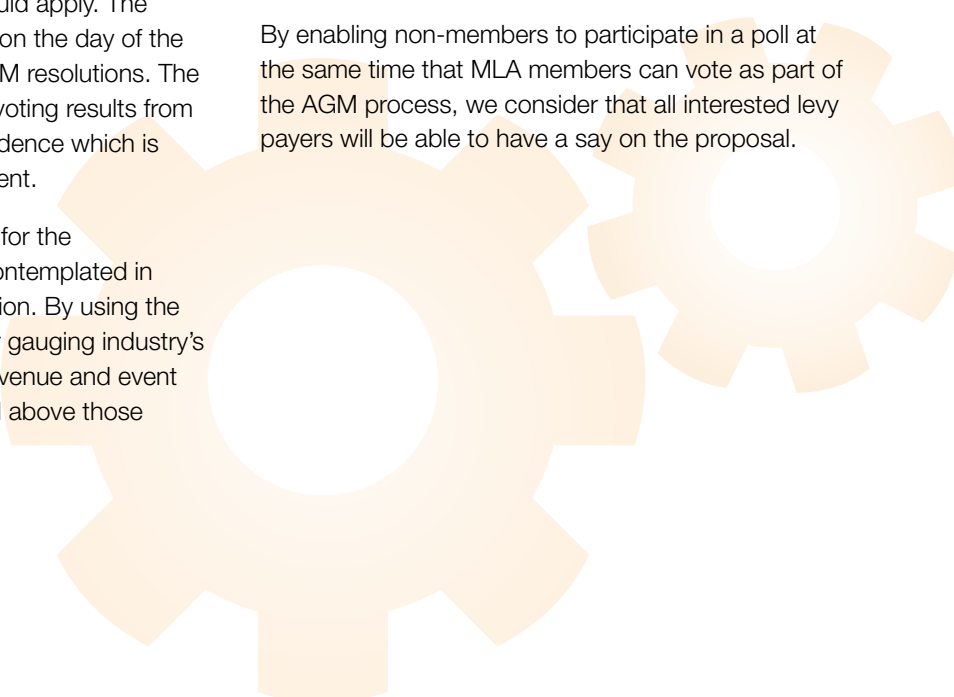
Following consideration of a number of different options, we recommend that the MLA Annual General Meeting should be the primary method of gauging the support of levy payers to the proposal.

This would involve Cattle Council of Australia and/or Australian Lot Feeders' Association putting forward levy resolutions at the 2009 MLA AGM regarding the recommended cattle transaction levy. Information about the resolutions and a summary report from the Committee would be included in the AGM documentation and the usual MLA AGM registration and voting entitlement process would apply. The process would culminate in a vote on the day of the AGM in the same way as other AGM resolutions. The peak councils would then use the voting results from the AGM as part of the body of evidence which is presented to the Federal Government.

Using the AGM as the mechanism for the consideration of levy amounts is contemplated in both the MOU and MLA's constitution. By using the MLA AGM as the main platform for gauging industry's response, no significant additional venue and event management costs will be required above those already in place for the AGM.

However, we noted that there may be levy payers who did not wish to become MLA members, in which case they would not be able to participate in the AGM. We therefore determined that, in parallel to the vote being undertaken by MLA members as part of the MLA AGM, non-members would be invited through advertising and publicity (see above) to apply for a voting pack and participate in a non-member poll. Non-members would be required to provide the same information as members and complete similar voting papers. The non-member voting papers would include a declaration of cattle sold in the 2008-09 year, from which their voting entitlements would be calculated. All non-members, by signing their voting paper, would agree to the rules of the ballot. These rules would be developed specifically for the purpose of the ballot, to ensure that MLA has the ability to verify and audit the information which levy payers provide.

By enabling non-members to participate in a poll at the same time that MLA members can vote as part of the AGM process, we consider that all interested levy payers will be able to have a say on the proposal.



b) Valuing the return to producers of the \$1.50



As part of our deliberations, we commissioned Warwick Yates and Associates to undertake a review of the use of and benefits flowing from the \$1.50 increase in the cattle transaction levy since 2006.

The report identified the impacts from the \$1.50 on market demand in each of the major markets for Australian beef and then, using the Centre for International Economics (CIE) Global Meat Industry Model, analysed how these demand shifts have, in turn, affected cattle prices in Australia.

Impact on market demand

Warwick Yates and Associates based estimates of shifts in market demand on consideration of the changes in real market sales before and after the introduction of the \$1.50 levy. The changes in volume and value (in real terms) in each market noted in the report.

Volume and value of Australian domestic and export beef and live cattle exports*

	Volume (kt)			Value \$m		
	Av 03–05	Av 06–08	Change	Av 03–05	Av 06–08	Change
Domestic	720	748	4%	6,475	6,808	5%
Japan	355	399	12%	2,116	2,146	1%
Korea	95	160	69%	463	801	73%
US	367	367	-22%	1,559	1,161	-26%
Other export	142	142	0%	670	686	2%
Live cattle export ('000 head)	771	675	-12%	582	497	-15%

* Years are FY (July – June); all monetary values in 2008 dollars

Source: MLA and EconSearch analysis

For each market, an assessment was made of the contribution of the \$1.50 programs to the value of Australian beef based on his consultations, observations and conclusions of the review. These were “conservative estimates of the impact of MLA increased (\$1.50) marketing efforts on aggregate market demand” and expressed within a range of low, medium and high.

Estimated annual impact of \$1.50 levy increase on demand for beef

	Estimated shift in market demand comparing the three years before and after FTF					
	Proportional impact			Value impact \$m*		
	Low	Med	High	Low	Med	High
Domestic	0.50%	0.75%	1.00%	32.4	48.6	64.7
Japan	1.00%	1.50%	2.00%	21.2	31.7	42.3
Korea	1.00%	2.50%	5.00%	4.6	11.6	23.1
US	0.25%	0.50%	0.75%	3.9	7.8	11.7
Other export	0.75%	1.00%	1.50%	5.0	6.7	10.1
Live cattle export	1.00%	2.00%	3.00%	5.8	11.6	17.4
Total#	0.61%	0.99%	1.43%	72.9	118.0	169.4

* Estimated as the product of the % shift in demand and the average annual market value for the three years prior to the introduction of the FTF program, 2002-03 to 2004-05, expressed in real (2008) dollars

The total (%) values in the proportional impact columns are weighted averages calculated on the basis of market gross values



Impact on cattle prices

Given the estimated shifts in market demand, CIE used its Global Meat Industry Model to estimate the impact on cattle prices on an annual basis under the range of market impact scenarios (low, medium and high).

Estimated impact of \$1.50 levy increase on saleyard cattle prices*

	2006			2007			2008		
	Low	Med	High	Low	Med	High	Low	Med	High
Grass-fed cattle	1.1%	1.9%	2.9%	1.1%	1.8%	2.8%	1.1%	1.8%	2.7%
Grain-fed cattle	0.8%	1.4%	2.1%	0.8%	1.4%	2.1%	0.9%	1.5%	2.2%
Live export cattle	0.8%	1.5%	2.2%	0.8%	1.5%	2.3%	0.8%	1.5%	2.2%

* Estimated using the same supply elasticity as CIE (2009); % change in nominal terms; shocks applied to domestic, Japan, Korea, US and live cattle export markets only

Source: CIE analysis using the GMI model

When applied to estimates of farm gate value for the grass-fed, grain-fed and livestock export sectors, the impacts of these contributions to prices were estimated.

Estimated impact of \$1.50 levy increase on annual gross farm gate returns (\$m)

	2006*			2007			2008		
	Low	Med	High	Low	Med	High	Low	Med	High
Grass-fed cattle	23	38	58	45	75	116	48	80	123
Grain-fed cattle	9	14	21	17	28	43	15	25	38
Live export cattle	1	2	4	3	6	9	3	7	10
Total	33	54	83	66	110	168	67	112	170

* The estimated price change would not have taken effect until the second half of 2006 when the increased marketing activity (funded by the \$1.50 levy increase) commenced

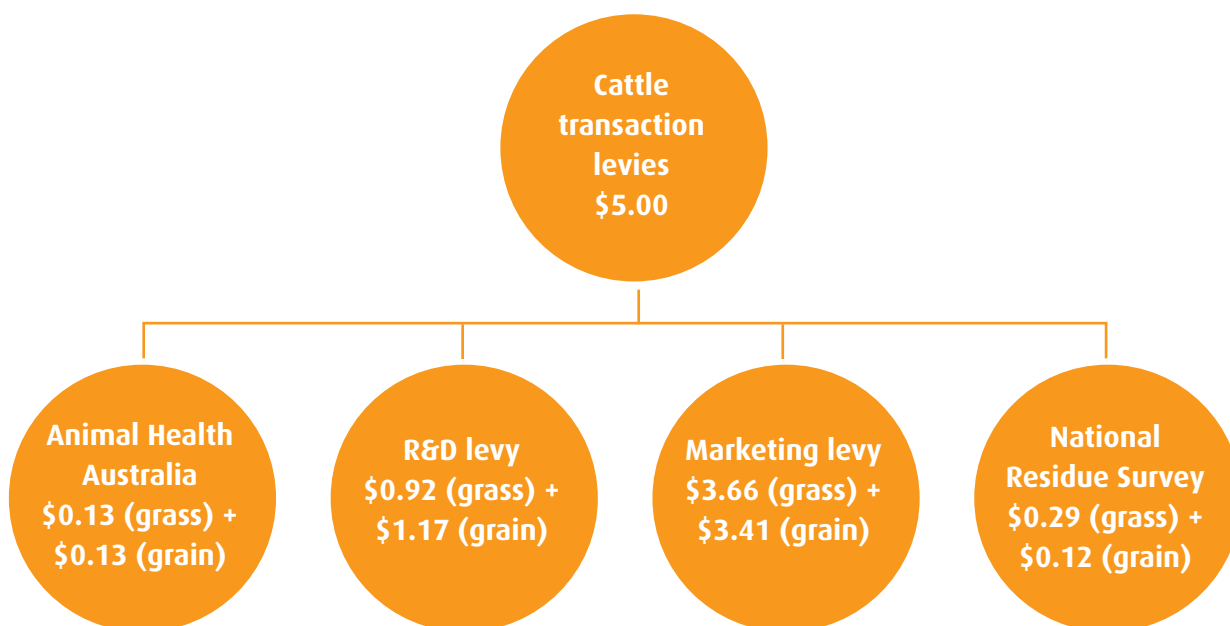
The medium impact marketing scenario indicates that in 2008 the gross value of grass-fed cattle was \$80 million higher than would have otherwise been the case without the \$1.50 increase in the marketing levy. For grain-fed cattle the corresponding estimate was \$25 million and for live export cattle, \$7 million. The total impact was estimated to be \$112 million in 2008 under the medium impact scenario (range of \$67 million to \$170 million).

Based on the \$1.50 providing additional marketing spending of around \$21 million per year, the Warwick Yates and Associates analysis indicates that the additional levy is returning between three times and eight times the levy payer investment, with the most likely return being five times.

c) The history of the cattle transaction levy



The cattle transaction levies of \$5.00 per head consist of four separate levies transferred to various organisations. By law, the levies must only be used for the purposes from which they are raised.



Levy rates as at 1 June 2008

This strict allocation arises from the history of the levies, which were originally directed to separate organisations: the marketing levy to Australian Meat and Livestock Australia (AMLC) and the R&D levy to the Meat Research Corporation (MRC).

History of the beef marketing levy

Levies for generic promotion date back to 1979, when the 30¢ per head slaughter levy used to fund the Meat Board was increased to 75¢ to fund the activities of the new AMLC. Four years later, in 1983, the slaughter levy was increased to \$1.20 per head.

In 1985, it was raised again to \$2.30 per head as part of the 'New Direction' program, when producers become active in the direction of AMLC. The slaughter levy was altered at each annual general meeting thereafter, peaking at \$9.80 in 1988 to address a major residue problem in the US, as well as fund the expansionary AMLC marketing programs in North Asia and Australia.

In 1991, the slaughter levy was abandoned, to be replaced by a cattle transaction levy for marketing (producers) of \$3.15 per head and a beef production levy for marketing (processors) of 1.89¢ per kg. These were reduced in 1992 to \$2.58 and 1.86¢, respectively, to run down unused industry reserves.

In 1994, the marketing levies were reduced again to \$2.16 and 1.49¢, and further in 1995 to \$2.08 and 1.44¢ (to divert operating funds to the new Meat Industry Council).

With the change from AMLC to MLA in 1998, the cattle transaction levy was split into grass- and grain-fed components, with marketing for grass-fed restored to \$2.16 per head* – its current level. The grain-fed marketing levy is adjusted (within the total cattle transaction levy) when required to meet changed industry priorities.

In 2005, the Federal Government through the Minister for Agriculture, Forestry and Fisheries accepted recommendations from industry to increase the



cattle transaction levy to \$5.00 for both grass- and grain-fed cattle. This represented an additional \$1.50 per transaction and was specifically designed to be used for marketing activities. The levy increase was implemented on 1 January 2006 and was provided with a sunset clause with the following conditions:

- “An independent review into how the extra levy funds have been used will also be undertaken with MLA required to communicate the results to producers and Government.”
- “If industry support for continuing the levy at \$5.00 cannot be demonstrated...as of 1 January 2011, return the levy rate to \$3.50.”

‘Equivalent’ cattle transaction levy

While the marketing levy has been raised under three different forms, the levies can be standardised to an ‘equivalent transaction levy’ to assess its relative value over time.

Using the assumption that there are, on average, 1.6 transactions per animal, and that average carcass weights are 220kg, the equivalent transaction levy has fluctuated from \$1.44 per head under the ‘New Direction’ to \$6.12 per head in 1998, and to \$2.50 per head now.

The impact of inflation means that the value of the levy is reduced over time. Between 2006 and 2008, the \$5 levy deteriorated in real terms by 7% to \$4.65 (in 2006 dollars).

Beef levies as a proportion of the livestock value are currently under 0.5%.

* For the period 1 September 2004 to 31 August 2005, the marketing component for levies imposed under the *Primary Industries (Excise) Levies Act 1999* is \$2.32/hd.

\$0.30 (grass) + \$0.14 (grain) \$0.92 (grass) + \$1.57 (grain)
\$2.16 (grass) + \$1.67 (grain) \$0.12 (grass) + \$0.12 (grain)



d) Levy governance



MLA's role and function

Meat & Livestock Australia provides marketing and research services for Australia's red meat and livestock industry, including livestock producers and lotfeeders, meat processors, wholesalers, foodservice operators, retailers, meat exporters and livestock exporters.

The company's mission is to offer world-class services and solutions in partnership with industry and Government to foster a profitable, sustainable meat and livestock industry that meets consumer and community expectations.

These services are carried out to support the following four strategic imperatives:

- Increase market access
- Grow demand for Australian red meat and livestock
- Enhance competitiveness and sustainability
- Increase industry capability

MLA commenced operations on 1 July 1998 and predecessor organisations to MLA can be traced as far back as January 1936. The services provided by MLA are funded from a variety of sources, including:

- Transaction levies paid on livestock sales
- Federal Government dollar-for-dollar funds for investment in R&D
- Co-operative contributions from individual processors, wholesalers, foodservice operators and retailers
- Contributions by processor and livestock exporter bodies

MLA's use of levy funds

A number of principles apply to the use of levy funds by MLA:

- Levy funds should be directed to activities that provide industry-wide benefits that would not otherwise occur and which are consistent with objectives set by industry.

The activities funded do not 'crowd out' business investment, but supplement and support the activities of individuals and companies in the marketing chain:

- The activities funded are supported by the officially recognised representatives of levy payers, and

also meet the Federal Government accountability requirements.

- The net benefit of such levy investments can be periodically assessed through performance measures.
- The use of producer levy income post farm gate is directed in consultation with representatives of those who own and employ post farm gate businesses.
- The industry must be able to fund from levy revenue, or reserves accumulated from levy revenue, an effective response to an industry emergency.

Planning and evaluation

The peak industry councils – Cattle Council of Australia (CCA), Australia Lot Feeders Association (ALFA), Australian Meat Industry Council (AMIC) and Australia Livestock Exporters Council (ALEC) – provide leadership, formulate policies and set the strategic imperatives for the industry.

Each year, MLA's *Annual operating plan* is developed jointly with the peak councils via an industry strategy planning meeting and marketing and R&D taskforces, culminating in the approval of MLA's budget allocations for the following financial year.

The specific key performance indicators detailed in the *Annual operating plan* align with the objectives and measures against strategic imperatives identified in the five-year *MLA Strategic plan*.

Performance evaluation is critical for MLA to remain accountable to stakeholders and provide quantifiable returns on industry and Government investment.

On top of measuring its performance on an annual basis, MLA commissioned the Centre of International Economics to develop an independent evaluation framework to enable an objective assessment of program outcomes against strategic imperatives.

The framework also reports on alignment of MLA programs with the Australian Government's Rural Research and Development Priorities, and periodic performance reviews ensure MLA carries out its activities in accordance with best practice corporate governance.

MLA corporate governance documents, including the *Strategic plan*, the *Annual operating plan* and the series of evaluation reports can be accessed on the MLA website at www.mla.com.au

e) Notes on livestock prices



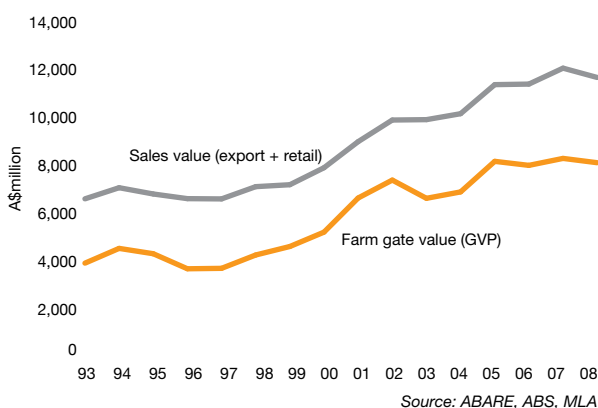
During the Committee's deliberations, we sought much information on livestock prices and the factors influencing them. In addition to the CIE assessment of impacts since 2005 (*Drivers of Livestock Prices*), the following information was presented to us that we felt useful to share with all levy payers.

Q. Why does MLA focus on growing consumer demand at retail rather than on increasing livestock prices?

A. MLA's programs are based on the premise that by driving overall industry revenues, through both export values and domestic consumer expenditures, the benefits of those revenues ultimately flow through to levy payers.

We found that this premise is largely supported by the industry data. The chart below shows that while there are periods when the two lines diverge, there is a correlation between farm gate values and overall industry revenues over time. This demonstrates that producers ultimately gain the benefits from increases in consumer demand.

Australian beef sales and farm gate values



Q. Why might livestock prices be lower even though domestic retail prices for beef have not come down?

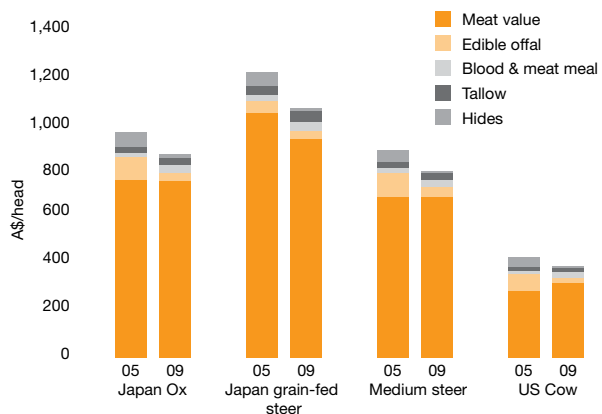
A. For every animal, while the majority of value is in the meat, up to \$100 has been delivered through co-products such as hides, tallow, offal, blood and meat meal.

Demand for these co-products has collapsed over the last six months due to the impact of the global

financial crisis. Industry data shows that the meat values we are achieving today are similar to those we were achieving in 2005, and this is despite the troubled economic climate and the disrupted trading conditions affecting all key markets.

The only exception is grain-fed steers destined for Japan where the absence of US beef in 2005 pushed prices up to record levels.

Estimated components of saleyard cattle value



Source: MLA calculations based on co-product prices and advice from Kurrajong Meat Technology and NLRs average saleyard prices

Q. Why is fillet steak retailing at around \$40/kg when producers only receive \$3.50/kg?

A. Retailers balance prices to ensure they sell every cut of meat from the carcass. They do this by charging premiums for cuts that are in high demand and using those premiums to offset low prices necessary to move cuts in low demand. In spite of all the processing, packaging, distribution and retailing costs incurred throughout the supply chain to deliver a consumer ready product, over half of the carcass does not even recover its carcass value. As demonstrated in the table, only 9% of the carcass achieves premium prices at retail.


Cuts	Typical retail value	% of carcass
Loin cuts (fillet, cube roll, striploin)	\$26-\$48/kg	9%
Other cuts (rump, blade, knuckle, topside, silverside, chuck, brisket)	\$9-\$19/kg	37%
Trimming	\$3-\$4/kg	27%
Fat and bone	no value	27%

Source: MLA



e) Notes on livestock prices

Q. Why aren't livestock prices in Australia the same as in the US?

- A. Great care should be taken in comparing Australian and US livestock prices as there are significant structural and cost differences that need to be taken into account. These include
- Distance to market – Australia incurs high transport costs relative to the US, given that around two thirds of our production is exported while 90% of US production is sold in its home market. Australia also incurs a greater percentage of frozen beef to reach these markets which increases our energy and packaging costs
 - Smaller, leaner animals – Australia produces a greater proportion of grass-fed and short grain-fed beef than the US, incurring higher processing costs per kg of beef and less fat sold as meat. This is particularly true in our domestic market where nearly all beef is now sold as fully trimmed.
 - Economies of scale in processing – Australian plants are generally smaller and less utilised than the US plants.
 - Differences in feed grains – while there are differences in the types of grain used (US predominantly corn, Australia predominantly barley, wheat and sorghum), feed grain prices have historically been lower in the US.
 - Herd sizes – Australian herds are generally larger, helping offset some of the dis-economies of scale in other areas.
- 

Q. Why do we see different cattle prices in different states and regions?

- A. Cattle prices are ultimately driven by:
- the nature of the livestock produced;
 - competition from the market for those cattle; and
 - the costs of processing and delivering that beef to the market.

Caution should be exercised in comparing livestock prices given the vastly different production environments across Australia. An industry supported study into these and other unique factors specifically impacting on WA livestock prices is underway with findings to be communicated to industry on completion.

