

**STRATEGICALLY POSITIONING
THE AUSTRALIAN SHEEPMEAT INDUSTRY
FOR THE YEAR 2005**

1ST DRAFT

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16 DECEMBER 1998

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FOREWORD

The pace of change across nations, industries and organisations has significantly increased during the 1990s. Consumer food, fashion and entertainment preferences are changing, and related lifestyles determine how, when and where people are using their time and money.

New countries have emerged, such as those resulting from the breakdown of the former USSR. In the longer term, it is suggested that four of the world's largest economies will be in China, India, Iran and Indonesia.

By the year 2005, over half the world's population will be within nine hours flying time from Australia, and over 50% of these people will be categorised as "middle class" as we understand the term today.

The population of developed countries will decline in the much longer term, while that in developing countries will continue to increase. The populations of India and China will continue to represent over one-third of the global population.

It has been stated that *"economic growth will result from increased productivity from an individual's knowledge and knowledgeable people. There will be no long term competitive advantage for any country, industry or company - the only comparative advantage of the developed countries is in the supply of knowledgeable people"*.

New industries continue to emerge, particularly associated with information and technology. The developing global "on-line", electronic (e)commerce economy is estimated to be worth \$475bn

by the year 2002. Australia and the USA have recently signed a bilateral agreement whereby Australia will be at the forefront of global e-commerce development, particularly in the Asia-Pacific region (The Australian Financial Review, 1 December 1998).

Primary industry is no different. While agriculture is still important to the Australian economy, the overall importance of it as an industry continues to decline. Family farms will remain a key part of Australian agriculture, at least in the short to medium terms. As agricultural industry undergoes change the Australian wine industry continues to undergo transformation, becoming increasingly competitive in the global "entertainment" market.

A recent Rural Press article (5 November 1998) titled "Global Push to Continue", indicated that:

- Consumers, not producers, will drive product development and marketing
- By the year 2010, farms will be bigger, fewer, more corporatised and more closely integrated with their downstream customers
- Smaller, progressive farmers will fill market niches
- The emergence of large scale multi-product, multinational organisations will occur
- There will be less government involvement in primary industry - more risk management to private sector organisations
- Local perspectives will be replaced by global perspectives.

Producer Responsibilities following the Industry Restructure

The new industry model implemented on 1 July 1998 is shown in the diagram below.

The recent red meat industry organisational re-structure has, for the first time, given sheep producers responsibility for identifying sheepmeat industry goals and initiatives to be pursued with their levy funds.

Producers are now also responsible for making Transaction Levy rate recommendations to the Federal Minister. The rate of Transaction Levy recommended will be directly related to the cost of programs which deliver against the goals and initiatives identified in this document.

The Sheepmeat Council of Australia, as the peak council for sheep producers, will oversight this strategic planning and levy rate recommendation process. Through the workshop it convened in Albury during October 1998 and in circulating this draft plan, it is providing you the opportunity to give your advice on the initiatives the industry as a whole should pursue with

levy funds, and to establish some understanding of industry priority.

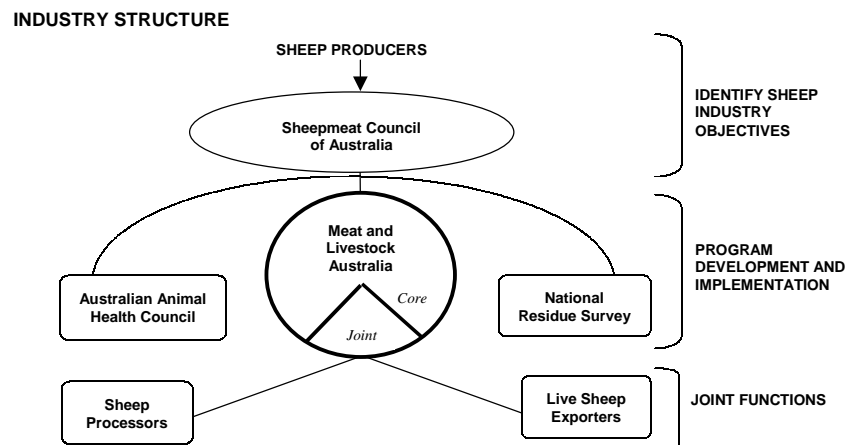
Once your comments are incorporated into this document, a final plan will be released and presented to the three organisations delivering levy funded services for the sheep industry. These organisations in turn will develop, implement and manage programs to achieve the outcomes you identify.

The three organisations are:

- Meat and Livestock Australia Ltd (MLA) which is responsible for delivering the research, marketing and information needs of industry

- The Australian Animal Health Council Ltd (AAHC) which manages national animal health programs and;
- The National Residue Survey (NRS) which undertakes a random residue survey of Australian sheepmeat products demanded by the domestic and importing markets.

The processing and live sheep export sectors also contribute to levy funded activities which mutually enhance industry performance and which are of direct benefit to their sectors. These jointly funded activities are managed by Meat and Livestock Australia.



1

INTRODUCTION

This document represents a first draft to “*strategically position the Australian sheepmeat (lamb and mutton) industry for the year 2005*”.

It presents a summarised, interpreted collation of information obtained from industry stakeholders:

- Albury 1998 Sheepmeat Industry Strategic Direction Workshop
- Pre-workshop questionnaire responses
- Information from the 1995 Lamb Industry Strategic Plan (LISP).

The main sections of this first draft strategic positioning document are:

- Major influences on the Australian Sheepmeat Industry
- “Vision 2005” - Strategic Focus
- What We Must Achieve - Industry Goals
- Initiatives Required to Achieve Goals.

Attachments to the document include industry background, a detailed overview of 1998-99 MLA Transaction Levy Expenditure and a summary of output from the October 1998 Albury workshop.

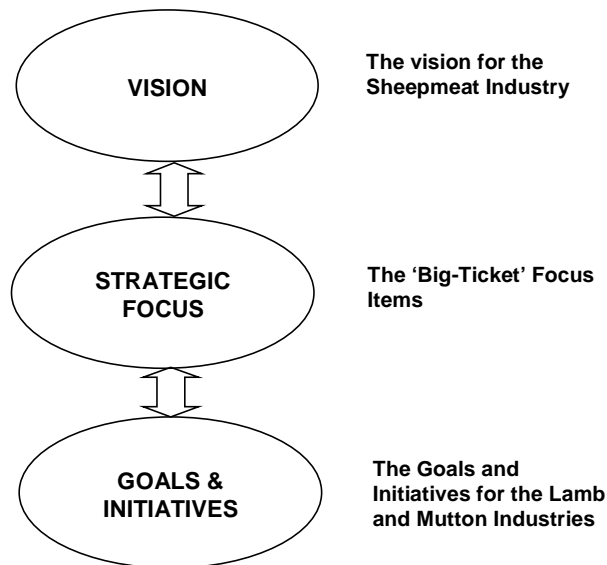
Your views on the goals and initiatives outlined in this document are important to ensure that those presented in the final draft are genuinely reflective of a considered and majority industry view.

Please provide your comments either directly to the Sheepmeat Council of Australia or via your industry association or group.

The Sheepmeat Council contact details are as follows:

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PO Box E10
KINGSTON ACT 2604
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The main sections of this first draft are:



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MAJOR INFLUENCES ON THE AUSTRALIAN SHEEPMEAT INDUSTRY

In considering the strategic direction for the lamb and mutton industries, the major short to medium term influences to be considered include:

- Market Access
- Consumer Preferences
- Competition
- Supply Chain Management
- Product Supply, Quality and Image
- Production Efficiencies
- Government Support.

Market Access

Tariffs, quotas and technical barriers (eg. veterinary agreements, inspection programs) imposed by most trading partner countries are significantly limiting increased business opportunities for Australia.

These barriers will be a major factor impacting on the growth and further development of the Australian sheepmeat industry.

There is evidence of a return to industry protectionism to maintain local economic and social stability as a result of short term economic difficulties in selected global markets.

Consumer Preferences

Population and lifestyle changes in both developed and developing countries will create both opportunities and threats to the sheepmeat industry. A wide range of food and health food products, including home meal replacements, are increasingly competing with traditional

foodstuffs.

Meat consumption in developed countries will decline and consumption in developing countries will improve. Consumers in developed countries eat fast food, like “eating out”, seek value-added semi-prepared meals and show a general decline in cooking skills.

The effective targeted promotion of branded lamb and mutton products, focussing on desirable consumer attributes, eating quality, health and safety characteristics, will impact on sales volumes, financial returns and market share.

Competition

New Zealand will continue to be Australia’s main international competitor for lamb products.

The competing balance between wool and mutton production will continue.

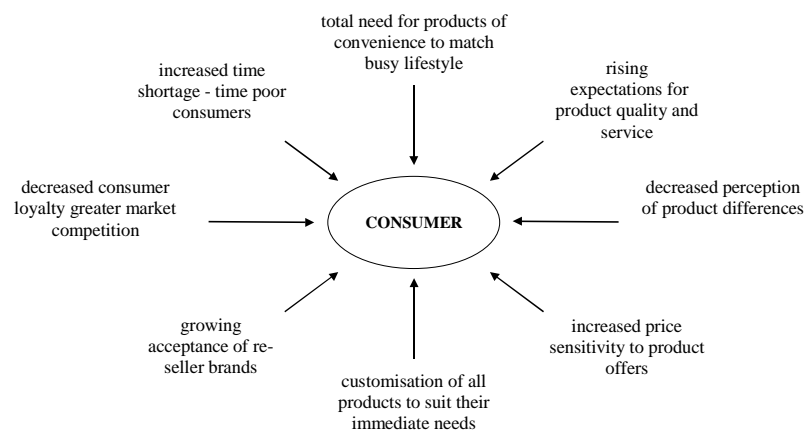
A collapse of the international wool industry would impact on both lamb and mutton production.

Other food products such as pasta, rice, beef, chicken, fish, pork and vegetables, all related to consumer eating habits and food preferences, will impact on both lamb and mutton sales.

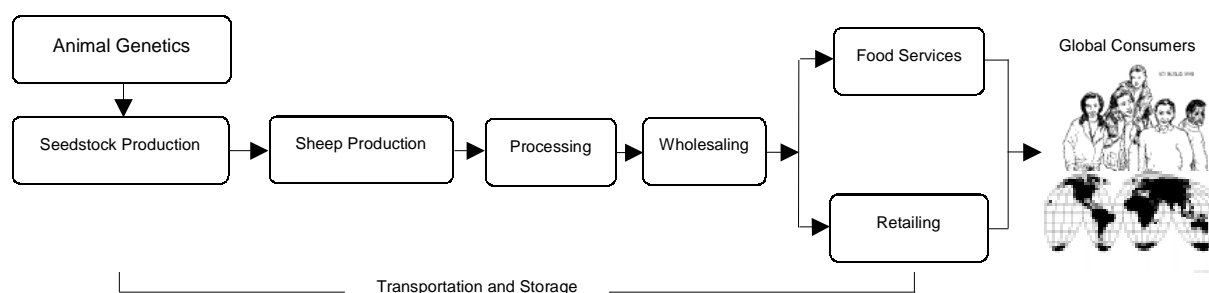
Supply Chain Management

This can be defined as:

“An integrated approach that aims to satisfy the expectations of consumers, through continual improvement of processes and relationships, that support the efficient development and flow of products and services from producer to consumer”, (Chains of Success, Commonwealth of Australia, September 1998).



Diagrammatic representation of the supply chain



Accountability and effective business relationships between key players in the supply chain will influence the success of the industry. There will be ongoing movement towards economies of scale in production, distribution and marketing.

Supermarkets will increase their market share.

E-commerce will increasingly be a significant trading medium of the future.

Management capabilities within the supply chain will improve, with a focus on strategic thinking, business planning and information management.

Product Supply, Quality and Image

The declining numbers of Australian producers and sheep numbers worldwide will impact on the year round global availability of lamb and mutton products.

Impacting on both lamb and mutton product market penetration will be the ability to produce a continuous supply (the seasonality of production has declined) of a healthy and safe product. This will be perceived by supply chain customers as a result

of disease and chemical residue management practices, and effective processing practices.

The application of genetic technology on-farm will be a significant influencer on the lamb and mutton industries. Lamb growth rates and carcase weights will increase as a result of the effective implementation of animal genetic developments, creating versatile product opportunities and processing efficiencies.

The substitution of mutton for lamb will continue to be a domestic issue in the short to medium terms.

Animal welfare issues will remain important to the sheepmeat industry.

Production Efficiencies

Ageing farming populations in Australia and other developed countries will affect technology uptake and hence, on-farm productivity.

The trend towards larger private land holding and corporate management of rural properties, will continue internationally. Larger and fewer farms will exist in the longer term.

Productivity gains in intensive agriculture (e.g. poultry and pigs) will continue to outstrip gains in extensive agriculture (e.g. cattle and sheep). Feedlotting practices will increase, and will impact on both production efficiency and product quality.

Government Support

The ongoing support provided by the Australian Government and agencies will be a key influence on the sheepmeat industry.

The industry will make best use of available government opportunities to improve market access. Work will continue with agencies such as the Australian Quarantine Inspection Service (AQIS), the Department of Foreign Affairs and Trade (DFAT), Agriculture, Fisheries and Forestry Australia (AFFA), Austrade, the CSIRO and Australian overseas embassies.

In areas of research and development, the Australian Government will continue to provide financial support.

3

“VISION 2005” - STRATEGIC FOCUS

The vision for the Australian Sheepmeat Industry is to be:

“THE LEADING GLOBAL FOOD MARKET PROVIDER OF SHEEPMET PRODUCTS, WITH AN INDUSTRY VALUE OF \$4.0BN BY THE YEAR 2005”

In this context, the sale of mutton will double its current value of \$0.6bn to \$1.2bn, and lamb will increase its sale value from \$1.6bn to \$2.8bn.

To realise this industry vision, the *overarching strategic focus* that emerged from the workshop for the Australian sheepmeat industry is:

- Globally focussed, consumer driven
- Expanded access to export markets, whilst maintaining the domestic market
- Effective supply chain management
- A knowledge based industry.

Globally focussed, consumer driven

The industry will become increasingly global and consumer driven, with value-adding through product and packaging innovation. It will provide valued, safe products to both customers (in the supply chain) and to consumers.

Specialist lamb and mutton producers will be integral to this strategy.

Research and development, including enhanced on-farm animal genetics application, will play an increasing role in ensuring

the right products are readily available for markets.

Animal health, welfare and food safety management, including the reduction in product substitution, will be critical to this strategic focus.

Expanded access to export markets whilst maintaining the domestic market

There are opportunities to further explore and access new export markets, improve access to existing export markets, and focus on the global supermarket, retail and food services sectors.

Marketing and promotion, using internationally recognised specific lamb and mutton product brands, and product category promotion will be a critical component within accessed markets.

New product development coupled with repositioned promotion and merchandising will be critical to both export and domestic market success.

New markets will be found for mutton (eg. India, Turkey, Eastern Europe and some Asian countries).

The support from the Australian Government will be a key factor in establishing effective market access and in international trade negotiations.

Effective supply chain management

Global supply chains will be predominant in global primary industry, with key profitable business relationships sustained between seedstock producers, sheepmeat producers, processors/

wholesalers, retailers and the food services sector.

Production and processing efficiencies will continue to be improved. The focus will be on providing high quality products relevant to both market and consumer preferences.

Linking product quality and value to price through the supply chain is crucial to effective supply chain management – particularly in the lamb industry.

E-commerce will be increasingly used for trading through the supply chain.

The effective transfer and management of technical, market and business information, the monitoring of supplier/provider performance, and accountability, will form an integral part of effective supply chain management.

A knowledge based industry

The knowledge based industry will result from a focus on research and development (R&D), communication, information and performance measurement systems, and ongoing education and training.

Key and pertinent R&D findings will be made available on an ongoing basis to supply chain enterprises. A key focus area will be “on-farm management practices”, to improve efficiencies.

There will be enhanced and coordinated communication through the supply chain by providing **simple and useable** information, which will integrate the industry.

4

WHAT WE MUST ACHIEVE - INDUSTRY GOALS

For the next 3-5 years, and in the context of “Vision 2005” and the strategic imperatives, the Australian Sheepmeat Industry will focus on achieving key goals for the industry to remain globally competitive.

The nine (9) proposed sheepmeat industry goals are:

- 1. To improve market access**
- 2. To provide consumers with innovative, modern food products**
- 3. To grow market share, specifically in global retailing and food services sectors**
- 4. To bring about further industry cultural change**
- 5. To continue the development of relevant industry alliances**
- 6. To enhance QA and food safety management practices**
- 7. To ensure consistent product supply and product quality**
- 8. To achieve greater industry accountabilities**
- 9. To realise profitable, efficient and sustainable producer enterprises.**

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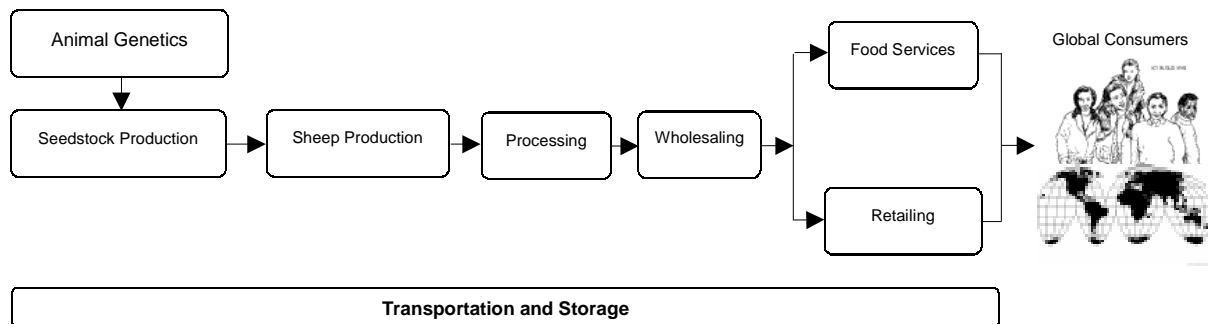
INITIATIVES REQUIRED TO ACHIEVE THE GOALS

The major initiatives cover:

- 1. Marketing and Promotion**
- 2. Research and Development**
- 3. Communication, Information and Performance Measurement Systems**
- 4. Value Based Marketing**
- 5. Industry Alliances**
- 6. Education and Training**
- 7. Quality Assurance, Animal Health and Welfare, and Food Safety**
- 8. Government Support**

In section 3 the industry identified four overarching strategies, these are: Globally focussed, consumer driven, expanded access to export markets, whilst maintaining the domestic market, effective supply chain management and a knowledge based industry. Pursuit of these strategies by each supply chain sector is critical for advancement by the Australian Sheepmeat industry as a whole.

IMPACT OF INITIATIVES ON SUPPLY CHAIN SECTORS



INITIATIVES:

- Marketing and Promotion
- Research and Development
- Communication, Information and Performance Measurement Systems
- Value-based Marketing
- Industry Alliances
- Education and Training
- Quality Assurance, Animal Health and Welfare and Food Safety
- Government Support

The tables in Sections 6 and 7 link the goals and initiatives for lamb and mutton respectively with key performance indicators and targets.

6

LAMB INDUSTRY GOALS AND INITIATIVES

GOAL ONE

TO IMPROVE MARKET ACCESS

- To reduce barriers to international trade

Initiatives	Performance Indicators	Targets
Review and prioritise trade barriers		
Use 1999 WTO negotiations to improve/pave the way for further trade liberalisation	Impact of international trade and technical barriers Export volume and value	Reduce Increase
Maintain and improve government relations		

GOAL TWO

TO PROVIDE CUSTOMERS WITH INNOVATIVE, MODERN FOOD PRODUCTS

- To reposition lamb by aligning the product to changing consumer needs
- Innovate and customise the range of lamb products for market sectors

Initiatives	Performance Indicators	Targets
Up-date research into existing and emerging consumer food preferences and competitors (food types and countries)		
Research into packaging and product innovations, meal preparation, eating quality / tenderness and lamb feed-lotting	Volume and value of new products	Increase

GOAL THREE

TO GROW MARKET SHARE, SPECIFICALLY IN GLOBAL RETAILING AND FOOD SERVICES SECTORS

- To achieve greater penetration into global markets, particularly the export food services sector

Initiatives	Performance Indicators	Targets
Targeted branded lamb and product category promotion both domestically and overseas	Industry volume and value market performance	Increase
Vertically integrated branded alliances to access levy funds with applications to MLA underpinned by appropriate business and marketing plans	Number of sustainable branded alliances Volume and value performance of branded alliances	Increase
MLA to under-take joint promotion activity with processors, wholesalers, importers, and /or retailers	Joint promotional activity	50% of all activity producer funded
Linking marketing and promotion expenditure with growth opportunities		
Focus on existing and emerging overseas markets, and specifically the retail and food services sectors		
Investigate the global market opportunities for new lamb products, skins and co-products		
On-going consumer awareness of product use, preparation and cooking methods, through a variety of mediums (eg. branded promotion; food and lifestyle magazines; the Internet; and in store demonstrations	Consumer awareness	Increase

GOAL FOUR

TO BRING ABOUT FURTHER INDUSTRY CULTURAL CHANGE

- To become increasingly consumer focussed

Initiatives	Performance Indicators	Targets
Develop supply chain alliances	Number of sustainable alliances	
Review existing training programs: develop a 3-5 year Training and Development program focussing on all sectors in the supply chain (including consumer awareness)	Number and size of successful farm business	
The training initiative to encompass farm business and financial management, LAMBPLAN, information management, QA, animal health and welfare, food safety, market and consumer research, supply chain and relationship management	Use of education / training programs	
Improve technology uptake, including the use of e- commerce	Technology uptake Use of e-commerce	Increase Increase

GOAL FIVE

TO CONTINUE THE DEVELOPMENT OF RELEVANT INDUSTRY ALLIANCES

- To consolidate and further develop the number of relevant alliances between producers, processors, wholesalers and retailers

Initiatives	Performance Indicators	Targets
Develop communication between producer and processor groups, though existing and emerging forums and business relationships	Number of sustainable alliances	Increase
Further develop producer (horizontal) alliances between breeders, finishers and feed-lot operations to improve supply capacity		
Continue to develop domestic and overseas alliances between producers and other supply chain participants to enhance supply chain management - build on existing domestic and overseas networks		

GOAL SIX

TO ENHANCE QA AND FOOD SAFETY MANAGEMENT PRACTICES

- To increase uptake of relevant QA practices in the supply chain

Initiatives	Performance Indicators	Targets
Understand and act on the demands of trading partner countries	Consistently meet trading partner country demands	100%
On-going adoption of QA principles and accurate product description	QA practice uptake throughout the supply chain	Increase
Develop a national sheep identification system to enhance trace-back and for the efficient management of disease / food safety incidents		
Maintain disease surveillance to meet international obligations and enable rapid response	Disease rates	Reduce
Exotic disease management plans to be maintained and enhanced		
Address animal welfare issues affecting the trade – Livestock Codes of Practice will be promoted		
Improve the National Safe Food System through ongoing monitoring, evaluation, correction and review	Residue / Pathogen levels	100% free

GOAL SEVEN

TO ENSURE CONSISTENT PRODUCT SUPPLY AND PRODUCT QUALITY

- To improve eating quality

- To eliminate domestic lamb product substitution

Initiatives	Performance Indicators	Targets
Research an appropriate lamb eating quality grading system	Grading system Value and volume of graded product consumed	Introduce Increase
Increase enforcement of lamb strip branding	Number of prosecutions	Increase
Trading lambs and lamb products objectively	Number of lambs traded over the hooks	Increase

GOAL EIGHT

TO ACHIEVE GREATER INDUSTRY ACCOUNTABILITIES

- To more clearly define and implement relevant supply chain performance indicators to monitor industry sector performance
- To ensure the effective and efficient use of levy payer funds
- To achieve more rapidly implemented R&D findings by the different sectors in the supply chain

Initiatives	Performance Indicators	Targets
Define (meaningful), implemented and acted upon performance indicators for all areas of levy funded activity	Return on utilised levy funds	Increase
R&D activities will be strengthened through enhanced national co-ordination	Innovations	Positive returns for R&D investment
Research outcomes will be communicated in ways easily understood by producers and other sectors of the supply chain	Technology uptake	Increase
Relevant global R&D findings, particularly from recently completed production research, will be made available through a centralised information source	Distribution of information	

GOAL NINE

TO REALISE PROFITABLE, EFFICIENT AND SUSTAINABLE PRODUCER ENTERPRISES

- To increase producer control over selling prices
- To increase growth rates and carcass weights
- To improve on-farm efficiencies including the reduction of production costs
- To increase the use of e-commerce

Initiatives	Performance Indicators	Targets
Develop sustainable alliances	Sustainable alliances	Increase
Adoption of objective selection of terminal sires (LAMBPLAN)	Gross margins of participants	Increase
	Growth rates and carcass weights	Increase
On-farm production practices (for improved operating efficiencies) – R&D and commercialisation of research results	International benchmarks	
Explore opportunities to enhance production/sales efficiency through e-commerce use	e-commerce use	Increase

7

MUTTON INDUSTRY GOALS AND INITIATIVES

GOAL ONE

TO IMPROVE MARKET ACCESS

- To develop new markets
- To respond to threats of new barriers

Initiatives	Performance Indicators	Targets
Review and prioritise trade barriers	Impact of international trade and technical barriers	Reduce
Use 1999 WTO negotiations to improve/pave the way for further trade liberalisation	Export volume and value	Increase
Maintain and improve government relations		

GOAL TWO

TO PROVIDE CONSUMERS WITH INNOVATIVE, MODERN FOOD PRODUCTS

- To redefine mutton's image
- To establish retail quality mutton products
- To differentiate mutton on qualities for particular products and markets

Initiatives	Performance Indicators	Targets
Develop different classes of mutton – mutton product description, product development and associated characteristics (eg. meat colour and tenderness)	Volume and value of new products	Increase
Research existing and emerging consumer food preferences and competitors (food types and countries)		
Develop table quality mutton product	Volume and value of new product	Increase

GOAL THREE

TO GROW MARKET SHARE, SPECIFICALLY IN GLOBAL RETAILING AND FOOD SERVICES SECTORS

- To maintain Australia's position as the dominant global supplier
- To increase domestic usage
- To increase export performance into higher value markets
- To investigate market opportunities for Merino lamb

Initiatives	Performance Indicators	Targets
Promotion initiatives will include the effective targeted promotion of branded mutton products	Market sector share by volume and value	Increase
Marketing expenses will be linked with growth opportunities and focus on existing and emerging overseas markets		
Investigation into global market opportunities for new mutton products, skins and co-products		
Undertake research into Merino lamb: <ul style="list-style-type: none">- quality attributes (eg. meat colour and tenderness)- supply consistency- develop a viable multi-purpose Merino lamb		

GOAL FOUR

TO BRING ABOUT FURTHER INDUSTRY CULTURAL CHANGE

- To become increasingly consumer focussed
- To increase uptake of new technology
- To improve on-farm management practices
- To increase the use of e-commerce

Initiatives	Performance Indicators	Targets
Develop supply chain alliances	Number of sustainable alliances	Increase
Review existing training programs: develop a 3-5 year Training and Development program focussing on all sectors in the supply chain (including consumer awareness)	Number and size of successful farm business	Increase

GOAL FOUR continued

Initiatives	Performance Indicators	Targets
The training initiative to encompass farm business and financial management, LAMBPLAN, information management, QA, animal health and welfare, food safety, market and consumer research, supply chain and relationship management.	Use of education / training programs	Increase
Improve technology uptake, including the use of e-commerce	Technology uptake Use of e-commerce	Increase Increase

GOAL FIVE

TO CONTINUE THE DEVELOPMENT OF RELEVANT INDUSTRY ALLIANCES

- To develop relevant industry alliances between producers, processors, wholesalers and retailers for the purpose of selling table quality mutton products

Initiatives	Performance Indicators	Targets
Establish parameters for table quality mutton (eg. age, meat colour, eating quality)		
Develop alliances to underpin supply and product consistency of innovative mutton products	Number of sustainable alliances	Increase

GOAL SIX

TO ENHANCE QA AND FOOD SAFETY MANAGEMENT PRACTICES

- To increase uptake of relevant QA practices in the supply chain
- To achieve high health status without residues

Initiatives	Performance Indicators	Targets
Consistently meet the demands of trading partner countries		
On-going adoption of QA principles and accurate product description	QA practice uptake throughout the supply chain	Increase
Develop a national sheep identification system to enhance trace-back and for the efficient management of disease / food safety incidents		
Maintain disease surveillance to meet international obligations and enable rapid response	Disease rates	Reduce
Exotic disease management plans to be maintained and enhanced		

GOAL SIX continued

Initiatives	Performance Indicators	Targets
Address animal welfare issues affecting the trade – Livestock Codes of Practice will be promoted		
Improve the National Safe Food System through ongoing monitoring and evaluation	Residue levels	100% free

GOAL SEVEN

TO ENSURE CONSISTENT PRODUCT SUPPLY AND PRODUCT QUALITY

Initiatives	Performance Indicators	Targets
Establish supply chain alliances	Number of sustainable alliances	Increase

GOAL EIGHT

TO ACHIEVE GREATER INDUSTRY ACCOUNTABILITIES

- To more clearly define and implement relevant supply chain performance indicators to monitor industry sector performance
- To ensure the effective and efficient use of levy payer funds
- To achieve more rapidly implemented R&D findings by the different sectors in the supply chain

Initiatives	Performance Indicators	Targets
Define (meaningful), implemented and acted upon performance indicators for all areas of levy funded activity	Return on utilised levy funds	Increase
R&D activities will be strengthened through enhanced national co-ordination	Innovations	
Research outcomes will be communicated in ways easily understood by producers and other sectors of the supply chain	Technology uptake	Increase
Relevant global R&D findings, particularly from recently completed production research, will be made available through a centralised information source		

GOAL NINE

TO REALISE PROFITABLE, EFFICIENT AND SUSTAINABLE PRODUCER ENTERPRISES

- To increase producer control over selling prices
- To increase growth rates and carcass weights
- To improve on-farm efficiencies including the reduction of production costs
- To increase the use of e-commerce

Initiatives	Performance Indicators	Targets
Develop sustainable alliances	Sustainable alliances	Increase
Adoption of objective selection of terminal sires (LAMBPLAN)	Gross margins of participants Growth rates and carcass weights	Increase Increase
On-farm production practices (for improved operating efficiencies) – R&D and commercialisation of research results	International benchmarks	
Explore opportunities to enhance production/sales efficiency through e-commerce use	e-commerce use	Increase

ATTACHMENT 1: INDUSTRY BACKGROUND

AUSTRALIAN SHEEPMEAT INDUSTRY

The Australian sheep industry (lamb, mutton and associated by-products) gross returns are currently valued at \$2.2bn per year. Of this, the lamb industry represents \$1.6bn and the mutton industry \$0.6bn.

Lamb

There is a current goal “to improve returns from lamb to reach \$2.0bn by the year 2000”.

Australia represents the largest market for lamb. The Australian market consumes in excess of 200,000 tonnes annually, worth approximately A\$780m. The domestic market offers little or no growth opportunities. While the immediate goal is to arrest the continual decline in per capita lamb consumption - currently at 11kg - it must be remembered that total product disappearance is declining at a much slower rate due to population growth.

Consumer attitudes and behaviour towards lamb have strengthened across a range of attributes, particularly in terms of taste, health and cooking. A significant number of consumers have become aware of the availability of lean lamb cuts. The main consumer issues with lamb remain fat and cholesterol.

As the importance of the food services sector grows, trimmed lamb products should continue to be promoted to gain synergies and efficiencies with retail marketing activities.

The principal overseas markets for lamb include the United States of America, the United Kingdom, Japan, Switzerland and the United Arab Emirates in the Middle East. Export volumes are increasing and currently represent 30% of total production while values represent 26%.

Lamb exports to the US represented 32% of total Australian lamb exports in 1997/98 and have increased by 15% on average each year since 1990. The US is the highest valued market for Australian lamb worth in excess of A\$85m in 1997/98. While Australia’s volume sales are destined to the retail sector, significant growth, albeit from a small base, has occurred in the food service sector where increased per unit returns are yielded.

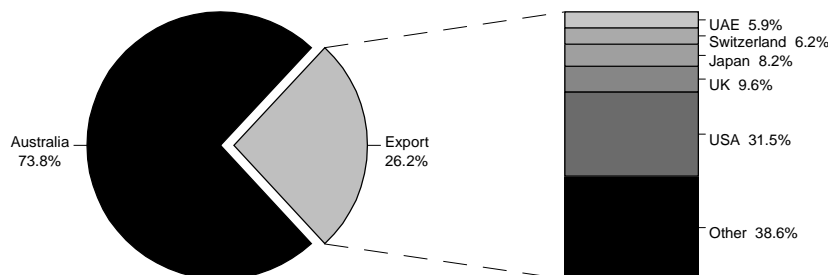
The UK represents a major market for Australian lamb which was worth A\$27m in 1997/98. Retail sales consist of frozen leg and loin items with limited penetration at food service. To date, the Australian industry has had limited penetration throughout the UK and other EU markets due to the limited quota access granted to the Australian industry each year. In 1998, access stood at 18,650 tonnes.

Japan provides an effective market for bone-in and boneless frozen shoulder items worth A\$23m while Switzerland, although small volumes, provides a market for fresh and frozen loin cuts of high value resulting in industry income of A\$17m.

The UAE is a traditional lamb customer for Australia and prefers fresh carcasses with Western supermarkets, catering to the expatriate population, merchandising legs and other primal cuts. In 1997/98, this market totalled A\$16m in sales of Australian lamb.

Lamb Value Share 1997/98

percentage share of product value measured on a wholesale equivalent basis (Australia) & an FOB equivalent basis (export) showing the top 5 export markets



Source: ABS

Lamb Industry Strategic Plan

The Lamb Industry Strategic Plan (LISP) was developed four years ago (1994) and has been integrated into current industry activities. The development of the LISP has encouraged greater industry understanding, especially among dedicated prime lamb producers.

Seven important factors were identified in the LISP to develop a superior Australian lamb industry:

- Meet Market Segment Needs
- A Customer-Focused Culture
- Consistency of Products
- Improved Image
- Consumer-Driven Trading Mechanisms
- Frequent, Meaningful Communication Within Industry
- Appropriate Education and Training Programs.

Four years later (1998), the industry has taken stock of where it is at, acknowledging that many elements of the LISP are still relevant for the progress of the Australian sheep meat industry.

Mutton

Unlike the lamb industry, only 35% of total mutton production was consumed on the domestic market with the balance being exported to over 80 destinations. Mutton on the domestic market constitutes an ingredient for smallgoods manufacturing, with limited quantities being used as a table meat product, great opportunities are found in pursuing fast food manufacturers.

The mutton industry currently is generally buoyant given strong

demand on export markets for both meat and live sheep. There is potential to position a young branded mutton product in both retail and food service niches to achieve product premiums.

Supply of Australian mutton has always been dictated by the fortunes of the wool industry. Current weak wool prices have resulted in Australia's sheep flock reaching record low levels with increased numbers of mutton sheep being sent to market for slaughter purposes. This is increasing the availability of mutton and Merino lamb products.

The major destinations for Australian mutton include Saudi Arabia, Japan, South Africa, Taiwan and the United States of America. Export performance, as a percentage of total production, has remained relatively stable over the last 5 years with over 220,000 tonnes (carcase weight basis) being exported each year.

Mutton exports to Saudi Arabia constituted 12% of total industry value in 1997/98 consuming in excess of 20,000 tonnes. Being a Muslim society, the Australian industry exports Halal certified product to the

Middle East in addition to a number of live sheep animals to be consumed in time for their religious festivals throughout each year.

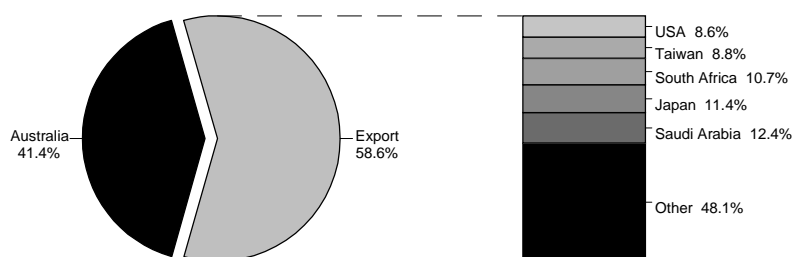
The great majority of mutton product bound for Saudi Arabia is shipped by sea in frozen carcase or bone-in cut form. Traditionally sold in the Souk or wet markets, there is a greater presence of Australian mutton being retailed at western style supermarket chain stores and butcher outlets across the region. Australian mutton in the region has been supported by targetted business development activities with the trade.

Japan remains a substantial market for the mutton industry consuming in excess of 14,000 tonnes each year worth approximately A\$43m in 1997/98. The product is sold in the North and used for further processing for Ghengis Khan style Korean BBQs in large mid-scale dining facilities.

South Africa has emerged as an important market for the Australian mutton industry purchasing frozen carcase and boxed carcase cut packs each year. In 1997/98, South Africa purchased A\$40m worth of mutton destined for the black

Mutton Value Share 1997/98

percentage share of product value measured on a wholesale equivalent basis (Australia) & an equivalent basis (export) showing the top 5 export markets



Source: ABS

communities throughout the region. Stock levels in South Africa have reached relatively low levels influencing the demand for imported protein products.

In 1997/98, Australia exported A\$32.8m of mutton to Taiwan. Growth over recent years has compounded annually at an average of 12% since 1992/93. The US uses mutton as an ingredient in further processed meat products purchasing in excess of A\$32m in 1997/98.

Summary of 1998/99 Levy Expenditure

A capped transaction levy has been introduced to fund producer supported initiatives undertaken by the National Residue Survey, the Australian Animal Health Council and Meat and Livestock Australia Limited. Below is a summary of 1998/99 expenditure by each of these three organisations.

Function	Lamb	Mutton
National Residue Survey	\$682,000	\$418,000
Australian Animal Health Council	\$193,000	\$364,500
Meat & Livestock Australia		
Joint Marketing	\$930,000	\$1,060,000
Core Marketing	\$7,997,000	\$555,500
Joint R&D	\$447,000	\$290,500
Core R&D	\$1,163,000	\$1,500,000
Levy Collection	\$248,500	\$101,500
Total	\$11,660,500	\$4,290,000

Attachment Two outlines the details of levy expenditure by MLA for 1998/99.