



AUSTRALIAN AGRIBUSINESS GROUP
MARKET OVERVIEW –
THE AUSTRALIAN BEEF CATTLE INDUSTRY

Independent Assessment - January 2007

Industry Snapshot

- The US is the world's largest producer of beef accounting for 22% of world production and is also the world's largest importer of beef holding 28% of the world's import market (Section 2).
- Australia is the second largest beef exporter behind Brazil, with the discovery of BSE in North America in December 2003, greatly helping to boost Australia's exports particularly to North Asia (Section 2).
- Australian exports are forecast to gradually decline in the medium term, with the expectation of the US and Canada resuming export trades to Japan and Korea in the near future and increasing competition from Brazil and Argentina (Section 3).
- Australian beef saleyard prices are forecast to decline over the medium term after the historic highs experienced in 2005/06 due to Australian beef production growth and increased supplies from the Pacific Rim markets along with liquidation of stock numbers following the poor seasonal conditions of 2006 (Section 4).
- Maintaining a disease free status and preserving strong relationships with key export markets is crucial for the continued success of the Australian beef industry (Section 5).

1 Introduction

Cattle are an integral part of Australia's agricultural sector providing beef and bi-products for domestic and international markets. Australia's cattle population in 2006 was 28.5 million head ¹. Beef cattle comprised 90% of this population with the remaining 10% representing dairy herds ¹. As with many agricultural sectors in Australia, the environment has a dominating effect on the beef industry, with drought conditions often influencing both price and herd numbers.

Beef and Veal continued to be Australia's most important agricultural commodity with a gross value of production of more than \$7.4 billion in 2005/06. Around 2/3 of the beef produced in Australia is sold on international markets ².

Cattle are produced in many parts of Australia, with different breeds used in the various climates. There are more than 40 different breeds throughout Australia.

In the tropical regions of northern Australia, *Bos indicus* breeds, such as Brahman are used as they are better adapted to perform in conditions that are harsher and where resilience to ticks is required.

In southern Australia, where the climate is milder, breeds belonging to the *Bos taurus* species that originated in the cooler climates of Europe are dominant. Examples of this cattle species are the Poll Hereford and Angus breeds, which are more effective in the milder climates of the south as they mature quickly and have a rapid growth rate ³. Specialty breeds such as Wagyu are becoming more common in Australia. Wagyu is bred specially for the Japanese market where its famous marbled meat is considered a delicacy.

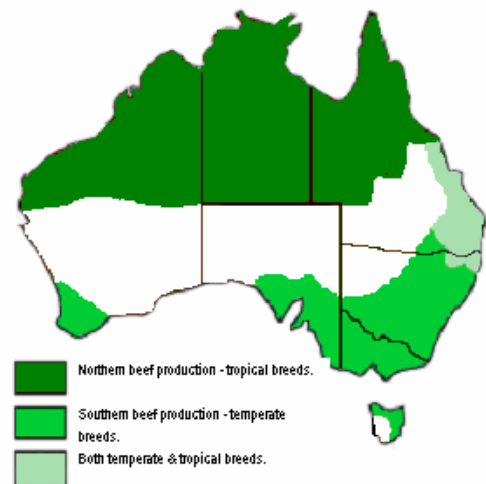


Figure 1 Regions where cattle are produced in Australia.

2 International Supply and Demand

As seen in (Figure 2), all states in Australia contribute to the nation's herd but, Queensland clearly dominates with 47% of the nation's beef animals ¹.

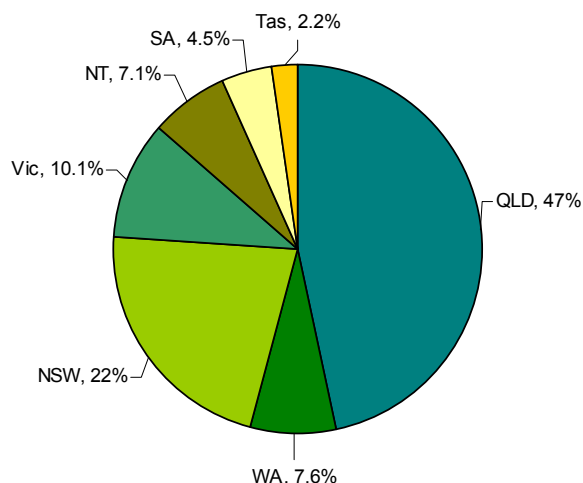


Figure 2 Composition of Australia's beef herd ¹

It is interesting to note that the latest Rural Management Partners (RMP) Rural Investor Outlook predicts the beef industry will become a lot stronger in the Savannah region in Northern Australia over the next 25 years ⁴. The potential for climate change suggests that southern producers will come under increasing pressure with decreasing water supplies whilst at the same time rainfall in the north becoming more assured ⁴. As a result RMP predict that future growth in the beef industry will be positioned in these Savannah regions of Australia and will have a large bearing on the number and location of cattle.

The feedlot industry has grown significantly since its inception in the late 1960's. Approximately 30% of all beef produced in Australia is processed through a feedlot, with the number of animals being fed through this system increasing by 15% per annum ⁵. Feedlots are found in all states of Australia. They are however concentrated predominantly in Australia's mixed farming regions, specifically south east Queensland, the northern Tableland and the Riverina regions of New South Wales where the required grain supply's for the feedlots are co-located.

The growth of feedlots during the mid-1990's has contributed to the success of the Australian beef export industry. This industry was born out of demand from overseas countries, namely Japan, for a specially tailored, high quality, year round product, unaffected by climatic conditions ¹. This has provided much needed stability to the beef industry in both the domestic and international markets ⁶.

Since the discovery of BSE (bovine spongiform encephalopathy or 'mad cow disease) in Canada and the United States during December 2003, demand for Australian beef has increased significantly in both the US and Japan. Following the BSE discovery in North America, Japan and Korea suspended US beef imports greatly boosting Australia's beef exports into these valuable Asian markets. Since the Japanese ban on US beef imports in December 2003, Australian beef sales to Japan have increased by 57% ⁷. A resumption of Japanese and Korean imports of US beef occurred in 2006. This is after a final agreement between the two parties on the initial conditions of re-entry set out at the time of the ban, and an inspection by the Japanese of the 35 US plants authorised to export to Japan ⁸. With the re-entry of North American product, it is expected the volume and value of Australian beef exports are likely to decline. However the extent of this decline will be dependent on US farmers being willing to comply with stringent regulations for export to Japan, consumer demand for US beef and the time and cost associated with inspections ⁸.

The United States is the world's largest beef producing country, accounting for 22% of total world production (Figure 3). Brazil is the world's second largest producer (17%) holding the world's second largest stock of cattle inventory. India holds the world's largest herd ⁹. With room to expand, Brazil is becoming a dominant force in the world beef market with its ability to produce beef at a low cost. Other major producing countries include China, Argentina, India, Mexico and Australia (Figure 3).

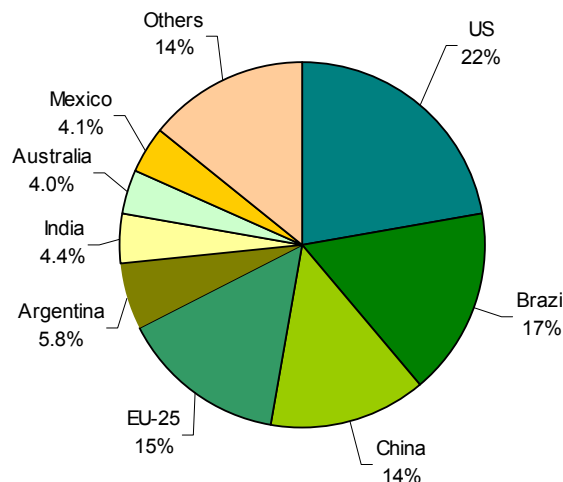


Figure 3 The world's major beef producing Regions 2006 ¹⁰

World production of beef and veal has followed a general trend of increasing over the past twenty years with Figure 4 demonstrating this trend over the past 5 years. However consumption has risen in unison with production, leading to a complementary relationship between world production and consumer demand.

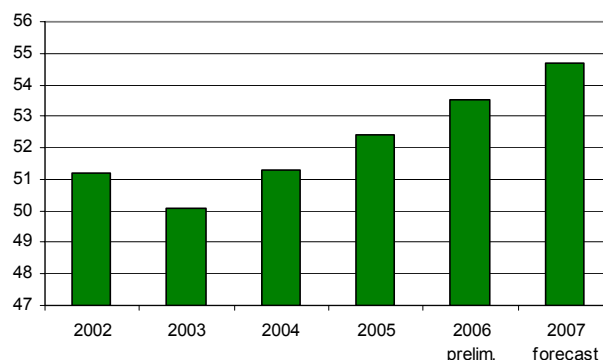


Figure 4 World production (million tonnes) of beef and veal 2002 to 2007 ¹⁰.

Beef trade occurs largely between developed countries and is closely linked to market access gains achieved under prior trade agreements. However BSE in Canada and the US has resulted in restrictions on their trade within the international beef market. This has allowed countries such as Australia to have an increased presence on the international market. Despite forecast lower exports to the US, Japan and Korea in 2006/07, total Australian beef exports are predicted to rise by about 3% to 915,000 tonnes. Despite a loss of export market share in Japan and Korea, an increase in exports to other markets such as Canada and South East Asia is likely to offset the decline ⁸.



In 2004, Brazil overtook Australia as the world's largest exporter (by volume) of beef, holding 26% of the market share, tripling its exports since 1998 ¹¹. Today Brazil is still the world's major beef exporter accounting for 28% of world exports (Figure 5). Brazilian beef is however not as tender as some of its competing producers and lacks marbling, leaving it out of contention for premium prices in markets such as Japan where Australia and US beef are preferred.

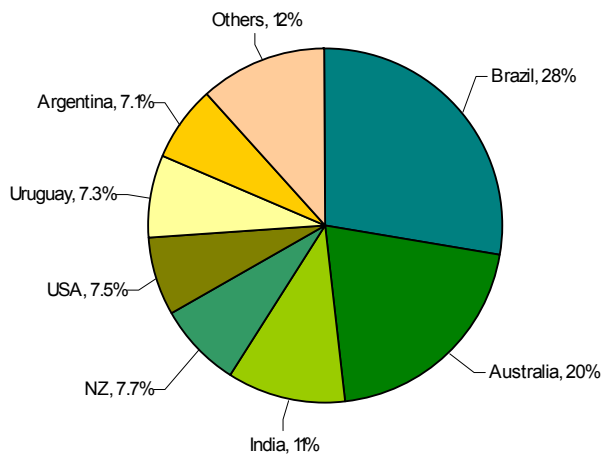


Figure 5 The world's major beef exporting countries 2006 ¹⁰

Australia has remained the world's second largest exporter of beef since 2004. India, New Zealand, the USA, Uruguay and Argentina are the other major world exporters of beef.

In 2006 the US continued its long term running as the world's largest importer of beef accounting for 28% of the world's total imports. Russia and Japan were the next two largest importers accounting for 17% and 14% of world imports respectively ¹⁰.

In the period following the 2002/03 drought, Australian cattle numbers have steadily increased. Poor pasture conditions and below average rainfalls in 2006 have however constrained beef expansion and increased beef meat production. Low pasture availability and high feed costs experienced by many beef producers has led to a decline in slaughter weights in 2006/07 only to be offset by a 5% increase in total cattle slaughters which has upheld beef production ⁸.

Japan, the US and Korea account for 90% of Australia's beef export market in value terms, China is the only other major individual market (Figure 7).

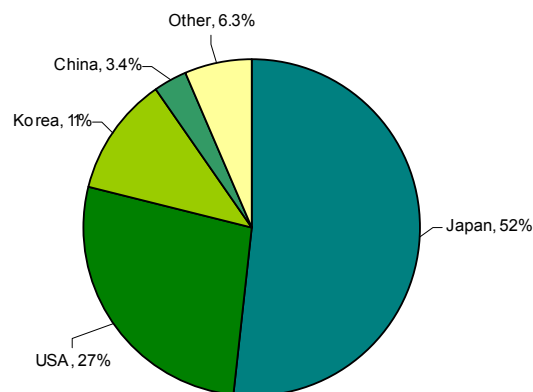


Figure 7 Value of Australian Beef & Veal exports in 2005 ¹

The value of Australian beef exports to Japan has been steadily rising over the past decade. In addition Korea has rapidly emerged as a valuable export market in the recent years ¹. The ban on US beef into these markets has greatly helped Australia consolidate its position within this region with the recommencement of US beef imports into Japan this year being more gradual than first predicted. Australian beef is expected to maintain a higher ongoing share of the Japanese and Korean markets than prior to US BSE with North Asian customers having warmed to Australian beef and the likelihood of consumer resistance towards US beef occurring ¹³.

3 Australian Supply and Demand

The domestic beef market accounts for approximately one third of Australia's beef production (Figure 6). In 2005/06 domestic expenditure on beef grew by 6.5% to \$6.4 billion ¹² with beef being the preferred red meat choice by Australians. Domestic expenditure on beef has grown by almost 50% since 2000/01 largely due to stronger consumer spending, improved marketing and presentation, a lift in the quality of beef and a more positive nutritional and dietary attitude towards red meat ⁷. Consumption per head has however been declining due to white meat consumption and production rapidly increasing over the past 50 years in Australia ¹.

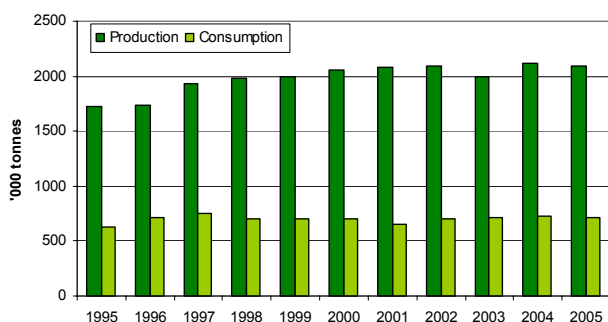


Figure 6 Australian production and consumption of beef and veal 1995 - 2005 ¹.

Looking forward, the demand for Australian beef on world markets will continue to be the main driver for Australia's beef industry with beef export revenue increasing by 85% over the past decade ⁷. In 2006 beef exports for the first 11 months were 4% above the same period in 2005 with November exports being the highest on record increasing 17% on November 2005 levels ¹⁴. The Asian market in particular will be critical with 65% of Australia's exports penetrating Asia ¹⁵. In 2004 Australia supplied 70% of Asia's beef imports. Approximately 70% of Asian beef imports are in the frozen form with Japan being the only major market to import large quantities of chilled beef. This is largely a reflection on Japan's preference for higher value product.

Increased competition on world export markets in 2006 and 2007 is likely due to the embargoes of US and Canadian beef being lifted. This is likely to ease Australian beef exports slightly. However with Australian saleyard prices forecast to fall over the medium term, Australian exports to the US are projected to increase by 24% from the 2005 level of 317,500 tonnes to 395,000 tonnes in 2010/11 ¹⁵.

The emergence of South American producers particularly Uruguay, is going to greatly increase competition into US import markets for Australia. Prior to 2003, US and Canadian imports from Uruguay were closed due to foot and mouth disease. Since this time the US has rapidly increased its imports of Uruguayan beef partly reflecting the high beef prices Australia has recently experienced. Over the medium term with Australian saleyard prices falling, Australia will be better placed to compete with Uruguay for the US's large import market ¹⁵. A weaker Australian dollar will also help increase US imports of Australian beef.

Live Cattle exports account for around 10% of Australia's total turnover. The majority of Australia's live cattle exports are shipped to Indonesia¹⁶ where they are fully grown out in feedlots before processing. Most live exports are sourced out of northern Australia where the risks of transport losses are close to zero. The recent Memorandum of Understanding on live animal trade that Australia signed with Eritrea, Saudi Arabia and Jordan is likely to increase Australia's live cattle exports to these countries. Indicators suggest that the market for live cattle exports will strengthen over the medium to long term¹⁷, with Australian live cattle exports reaching 756,000 head by 2010/11, an increase of 31% from the 2003/04 level of 578,000 head¹⁵.

4 Possible Price Scenarios

Beef saleyard prices have followed an upwards trend over the past 30 years¹ and reached record high levels over 2004/05 and 2005/06⁷. This high price has been driven by high domestic and international demand for beef and trade restrictions due to disease imposed against Australia's major export competitors.

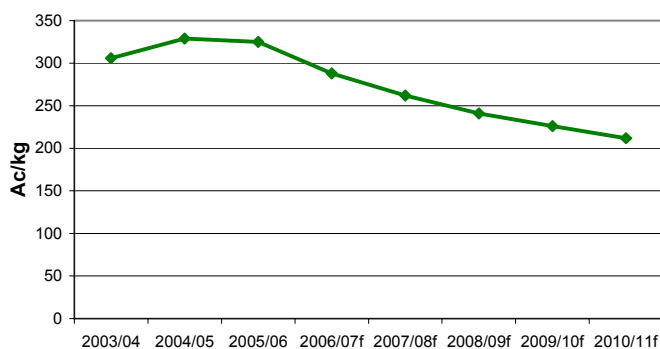


Figure 8 Historical forecast beef saleyard prices in 2005/06 A\$¹⁵.

The outlook shows a weakening in beef prices moving towards 2010/11 (Figure 8). A rapid decline in beef prices has occurred over the later half of 2006 due to liquidation of stock numbers and an oversupply in the market arising from poor seasonal conditions. It appears prices will steady and rise again over the next year however this remains dependent on seasonal conditions¹⁸. Moving into the next few years, Australian beef production is expected to decline and increased supplies particularly from the US and Canada into Pacific Rim markets along with added competition from South America, is likely to place continued pressure upon Australian beef prices. A strong Australian dollar is also placing added pressure on Australian beef processors.

5 Future Outlook and Conclusions

In the short term, retaining relationships established in the Japanese beef market will be critical in maintaining Australia's current high value export markets.

A declining Australian/US dollar value going forward would assist Australia in improving its export market appeal.

As Australia exports two thirds of its beef production, it is crucial that Australia maintains its disease free status¹⁶. Anything else would be disastrous for the industry.

Competition from Brazil and Argentina into the US and Japan will be the major challenge facing the Australian beef export market in the medium term. Despite widespread vaccination for Foot and mouth disease, Brazil will be handicapped in accessing Australia's main export markets of Japan and the US in the near future. Although future US imports of Brazilian beef are expected, Australian exports to Asia are less likely to be threatened because of its close proximity to Asia in comparison to South America.

The Australian beef cattle industry is well established and with continued sound farm management practices and good marketing, the outlook is positive¹⁰.

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