

Profitability the constant challenge

Mike Introvigne



Each sector of the beef industry faces the same fundamental challenge of improving returns to ensure a sustainable future, according to Western Australian producer Mike Introvigne.

Mr Introvigne, his brother Rob, together with their wives Julie and Diane, run the Introvigne Grazing Company beef enterprise and Bonnydale Simmental Farms east of Bridgetown in south-west WA.

Profitability is the constant challenge facing the industry and it is vital to attract the next generation of farmers, said Mr Introvigne.

"It's got to be profitable in the eyes of young farmers because they are the future. I'm 48 and I'm considered a young farmer, that's a worry!" he said.

"The same fundamental challenges are there right throughout the beef industry. Every link in the chain is integral to our future viability."

700-800mm rainfall country, ranging from undulating gravel loams to heavy sands.

About 500ha is cropped for oats, ryegrass and ryegrass/clover hay each year, for use on-farm and for sale.

Their 750 breeders includes a stud herd of 260 Simmentals, with the commercial herd a mix of Simmental, Angus and Murray Grey crossbreds.

The commercial herd is primarily targeted to turning off milk-fed vealers for the domestic market at 9-10 months, with the remainder being backgrounded and sold to feedlots.

The stud enterprise has been expanded in recent years with the introduction of Black Simmental genetics via embryos from the US and as part of a program to breed hybrid Black Simmental-Angus bulls an Angus stud has been registered.

Mr Introvigne said the breeding program targets client needs and they keep a focus on calving ease, growth and carcass performance.

"The same fundamental challenges are there right throughout the beef industry. Every link in the chain is integral to our future viability."

BEEF MARKETING RECOMMENDATION

All cattle levy payers will have the ultimate say on what the marketing component of the cattle transaction levy should be, the Beef Marketing Funding Committee will put forward a recommendation, to be announced at Beef Australia in early May.

The 14 members on the Committee included five independent cattle producers, two representatives from the Australian Meat Industry Council, two representatives from the Cattle Council of Australia, two representatives from the Australian Lot Feeders' Association, two MLA Board members and one live export sector representative.

Review

Mr Introvigne said improving returns to producers was the key element underlying the deliberations of the 14-member Beef Marketing Funding Committee that was established to review the ongoing level of the beef marketing levy.

As an independent levy-payer representative on the Committee, Mr Introvigne said the cross-section of representation across the industry and different geographic areas was vital to the process.

"The different views and perspectives between different segments of the industry was an important part of the discussions. The big ticket issues are the same across the board but someone with 70,000 breeders in northern Queensland is going to have some different issues to those we face in south-western WA," he said.

In WA, the predominantly domestic-focused market meant production was primarily high quality, yearling-based, with a much smaller export market.

Enterprise

The Introvigne family business entails a Simmental stud, a commercial beef operation and hay production, based on 1,450ha in

One side of the equation

However productivity gains were just one side of the equation and "getting a better share of the consumer dollar" would be increasingly vital for a sustainable future, he said.

"We often hear that we are increasing beef sales but unless returns to producers are improving in real terms this means nothing. The use of the marketing levy has to focus on getting better returns to producers."

Mr Introvigne said all participants on the Beef Marketing Funding Committee were focussed on the same ideas and had access and insights into an "enormous" volume of information and views in considering the use of the additional \$1.50 levy to date and the requirements for the future.

MORE INFORMATION

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Making the most of opportunity



Jen Munro

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Jen Munro is optimistic about the future for Australian beef producers but believes the industry must be proactive in maximising all opportunities.

On-farm, this means utilising new technologies and making the most out of every hectare of the Munro family beef and broadacre enterprise in northern NSW.

For the industry, Ms Munro believes this means making sure maximum value comes from every dollar spent on marketing.

"The fundamentals for beef look good but we need to make sure we do everything we can to maintain our market share and improve returns to producers and supply chain," Ms Munro said.

"The outlook for our industry is good but there are so many issues like input costs and emissions trading, that we absolutely cannot afford to miss any opportunity to be proactive."

The 28-year-old was the youngest person on the Beef Marketing Funding Committee, established to review the cattle marketing levy and recommend the level of funding for the beef industry's marketing activities from 2011.

"It is a significant responsibility and it has been a fantastic opportunity to be involved," she said.

"It was imperative the committee represented a cross-section of the cattle industry and everyone on the committee took the responsibility very seriously. There were very diverse views but it was important that all aspects were considered and that the process was thorough."

Family-owned

Ms Munro and her father Sandy Munro manage the family-owned Norland Pastoral business based out of Moree in northern NSW.

The enterprise operates on 40,500ha made up of four properties all within 90 minutes of Moree – 'Gooar Station' and 'Boonal' near Goondiwindi, 'Weebollabolla' near Moree and 'Mayvale' near Barraba.

The cattle side of the business includes 2,500 breeders, including a 500 cow Shorthorn stud, with Droughtmaster, Charolais and Senepol crossed with Shorthorn in the commercial herd.

They opportunity feedlot when grain is available and otherwise sell feeder steers.

Cropping – grain and cotton, when water availability allows – also make up a significant proportion of the business.

The mix of country, ranging from high 800mm rainfall, heavy black soils through to lighter soils – provides flexibility to move cattle around depending on the season, providing a degree of 'drought proofing'.

The use of better genetics and better production information gathered through the adoption and use of NLIS has assisted productivity improvements in recent years.

"Now it is really about information management and we certainly haven't fully optimised what is available yet," said Ms Munro.

While 'keeping a balance', the Munros are focusing on meat quality and feed conversion efficiency traits when selecting genetics.

Their focus was on "making every hectare count", she said.

Beef supply chain

Ms Munro said that participating in the Beef Marketing Funding Committee had reinforced to her the challenges facing every section of the beef supply chain – but had also highlighted the opportunities for Australian beef.

"The outlook for our industry is good but there are so many issues like input costs and emissions trading, that we absolutely cannot afford to miss any opportunity to be proactive."

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Cattle levy an investment in the future



Based at 'Tierawoomba' at Sarina QLD, Peter Hughes is the founder and owner of Georgina Pastoral and owner of Hughes Pastoral. He has family connections with premium beef production stretching back to 1872 in the Nebo region, spanning four generations.

Australian beef producers are being advised to retain the \$5 a head cattle transaction levy.

The findings and recommendations of the Beef Marketing Funding Committee were released at Beef Australia 2009 in Rockhampton in May, with an overall recommendation to retain the \$5 a head levy.

Committee Chairman and Queensland beef producer Peter Hughes said the recommendations of the 14-person independent Committee were unanimous following an extensive and comprehensive review over six months from October last year.

"We have to invest in our future – the \$5 levy is a modest but appropriate investment in the future of our industry," he said.

"The \$5 levy today holds roughly the same values as the original \$3.50 levy did in 1998 and assuming 2% inflation going forward, we'd need a levy of \$5.63 in 2015 to maintain current purchasing power."

The Committee was established to review the benefits of the \$1.50 increase in the cattle marketing levy since 2006, consider industry needs for the future and recommend the level of funding for the beef industry's marketing activities from 2011.

The Committee included five independent cattle producers, two representatives from the Australian Meat Industry Council, two representatives from the Cattle Council of Australia, two representatives from the Australian Lot Feeders' Association, two MLA Board members and one live export sector representative.

Mr Hughes said the Committee commissioned two independent expert analyses – one by Warwick Yates and Associates and a second by the Centre for International Economics. In addition the Committee sought submissions from the industry and questioned MLA staff from here and overseas.

"It was a very robust and comprehensive process," he said.

The Committee's key findings were:

- The additional (\$1.50/head) marketing levy has delivered five times the investment back to producers.
- The major impacts on livestock prices since 2006 have been high exchange rates and high grain prices until late 2008, and more recently credit restrictions on global trade and the collapse in demand for co-products. Without these impacts, livestock prices would continue to be at or near record levels.
- The Australian beef 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 markets and capture new markets.

- 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.
- 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 – the \$5 levy is modest and needs to be

maintained if we want to invest in our future," Mr Hughes said.

At an average steer value of \$800 per head, the marketing component of the \$5 levy – \$3.66 for grassfed cattle and \$3.41 for grainfed cattle – represents 0.45% and 0.43% respectively of the sale value. This compares with 1.2% for lamb and 1.05% for pork.

Mr Hughes said the Committee had also considered the impact of expected inflation on the "purchasing power" of the levy to 2015.

"The \$5 levy today holds roughly the same values as the original \$3.50 levy did in 1998 and assuming 2% inflation going forward, we'd need a levy of \$5.63 in 2015 to maintain current purchasing power," he said.

"However, it is expected that inflationary impact will be offset by forecast increases in the number of cattle transactions."

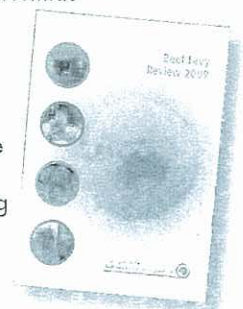
"We are also mindful of the need for MLA to experience the sort of pressure producer and processor levy payers encounter as they strive to do more with less."

MORE INFORMATION

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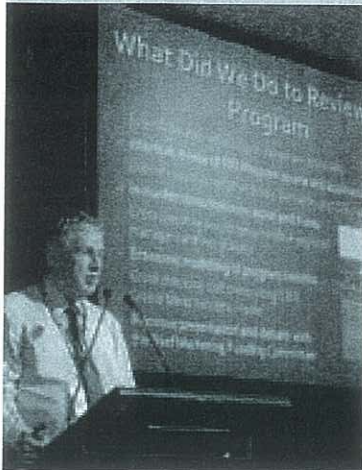
A full copy of the Beef Marketing Funding Committee findings and recommendations, and related reports, are available online at www.mla.com.au/beeflevyreview or by phoning MLA on 02 9463 9333.



AT A GLANCE

- > Independent committee recommends retaining \$5 beef cattle levy.
- > Modest investment in beef marketing needs to continue.
- > Beef Marketing Funding Committee findings and recommendations released at Beef Australia 2009.
- > Period of consultation to culminate in a vote of levy payers in conjunction with the MLA AGM.

Economist Warwick Yates outlines the significant farm gate value of the beef levy at Beef Australia, following research conducted for the levy review committee.



'Bang for the buck'

As producers discuss in the coming months the proposal to maintain the \$5 beef transaction levy, beef industry consultant Warwick Yates is one of the key number crunchers that has ensured they have the full arsenal of information regarding the benefits of the levy.

Speaking at an MLA Frontier Forum during Beef Australia 2009 in Rockhampton, Mr Yates presented his marketing impact analysis to a public crowd of graziers and the industry, delivering the same detailed research which he and the Centre for International Economics prepared for the Beef Marketing Funding Committee.

program performance was good. Carcase weight usage increased, retail prices increased, retail weight usage increased, and the value of retail increased. We also saw per capita expenditure increase."

He added that the program had good flexibility to adapt to changing conditions, including sudden emergences of new markets such as Russia and the Middle East.

Critical

Overall, he said the marketing levy and its value was critical for maintaining market share, particularly in the face of increasing challenges and perceptions in metropolitan areas.

COME AND TALK TO MLA

MLA will be visiting a range of locations across Australia in the coming months to talk about its programs in R&D, marketing and presentations from the independent Beef Marketing Funding Committee.

The forums will provide producers with an insight into global trends and the prospects for future red meat demand.

The presentations from the independent Beef Marketing Funding Committee will look at their recommendations on future marketing levy needs and from MLA staff who will provide an insight into the marketing strategies that the industry will undertake.

Coming forums will be held on:
21 July – Dandargan, WA
22 July – Bunbury, WA
23 July – Mt Barker, WA

Week starting 27 July forums will also be held in Kununurra, Broome and Port Hedland, WA
28-30 July – NSW Farmers Association Conference, Sydney
6-8 August – Brisbane Show (EKKA), QLD

For details on more events at later dates across Australia, locations and registrations: www.mla.com.au/beeflevyreview
Toll free phone: 1800 675 717

"Over a three year period the levy has made a \$50.2 million investment to secure and maintain access to an industry worth \$11.6 billion."

And he outlined the substantial "bang for the buck" the marketing component of the levy had delivered since its introduction in January 2006.

"Over a three year period the levy has made a \$50.2 million investment to secure and maintain access to an industry worth \$11.6 billion," Mr Yates said.

"Funding for the future has been successful, transparent and flexible. The market funds are targeted and cost effective, and have positioned Australia to weather the impact of the US return to key markets."

Comparing the three years prior the levy increase to the three after, the report estimated the return at about 5:1, generating \$276 million in benefits, looking at impacts on saleyard prices and farmgate returns (corrected for inflation).

In line with this, the committee has specified that the levy continue to return at least 3:1 in benefits to cost in its recommendations.

Marketing programs

Mr Yates said the economic analysis had delved deeply into the benefits of the marketing levy in both the domestic and overseas markets. He added that marketing programs had also improved as knowledge of the audience expectations and views increased.

For instance, early marketing programs such as 'Bring out the Beef' proved less effective than following programs that were far more successful, such as programs that enticed mothers to buy beef for their children's nutritional requirements.

"We didn't hit all the targets, but no one expected a 100% success rate. Overall, the

"In Australia, 24% of people are born overseas, 73% of people are urban Australians who know little or nothing about farming, and 64% of people aged under 65 have never been on a farm.

"These are the challenges we are subject to."

"To reduce the levy would give customer loyalty, market share and subsequent export volume to our competitors," he said.

"It makes little sense to reduce expenditure in these markets given projected future market volatility in the global meat market environment."

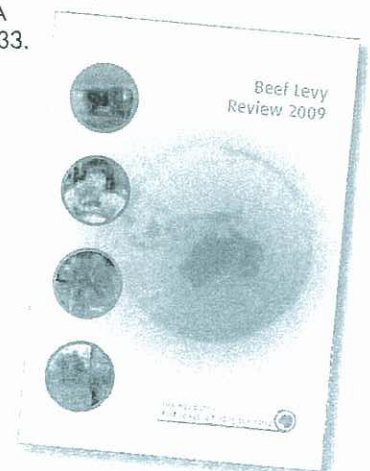
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The price of beef

Cattle prices are a topic never far from the lips of beef producers.

Many have wondered why fillet steak retails at around \$40/kg when they might only be receiving around \$3.50/kg for their cattle. Why do livestock prices differ by state and region? And why might livestock prices be lower even though domestic retail prices for beef have not come down?

There are no simple answers to all these questions however information recently presented to the Beef Marketing Funding Committee, an independent committee formed to review the effectiveness of the increased marketing component of the cattle transaction levy since 2006, sheds some light on the major influences on livestock prices over the previous three years.

Retail prices versus producer prices

Retailers balance prices to ensure they sell every cut from the carcass. This means high demand cuts command premium retail prices to offset the low prices needed to move low demand cuts. More than half the carcass does not recover its cost (as shown in table 1), with only 9% of the carcass achieving premium prices despite all the processing, distribution and retailing costs incurred throughout the supply chain to deliver a consumer friendly product.

Demand for co-products including hides, tallow, offal, blood and meat meal also impacts on livestock prices. While domestic retail prices might remain unchanged, producers may be receiving lower prices for their livestock due to a fall in demand for these co-products, which can account for up to \$100 of the value of each animal.

Taking the last six months as an example, the global financial crisis has seen demand for co-products collapse, while meat values are similar to those of 2005, despite the disrupted trading conditions in all markets.

Why our prices differ to the US

Another question often asked by local producers is why Australian livestock prices aren't the same as in the United States.

According to the information presented to the committee, the structural and cost differences between the two countries make them incomparable for the following reasons:

- > Australia has higher transport costs with around two thirds of our production exported while the US sells 90% of its production to its domestic market.

- > Australian animals are generally smaller and leaner with a greater proportion of grassfed and short grainfed beef incurring greater processing costs per kg of beef and less fat sold as meat.

- > Feed grain prices have historically been lower in the US.

- > Australian processing plants are often smaller and less utilised.

Why prices differ within Australia

Price comparisons within Australia are also difficult to make with different production systems impacting on the nature of the livestock produced in each region and state, and the level of competition in the market for those cattle obviously varying from region to region based on local demand drivers.

The varying costs of processing and delivering that beef to market also needs to be considered.

An industry study is currently looking at these and other unique factors impacting the Western Australian market in particular, with the findings to be shared to the industry once the study has concluded.

MLA and livestock prices

So how does MLA's work affect livestock prices?

Working on the premise that increasing consumer demand at retail level ultimately flows back through the supply chain, MLA's marketing activities are designed to drive revenue for the entire red meat industry through export values and domestic consumer expenditure.

Industry data (figure 1) supports this premise, showing a correlation between farm gate values and overall industry revenues which illustrates that despite some periods of divergence, producers ultimately benefit from increased consumer demand.

Table 1: 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%
Trimmings	\$3-\$4/kg	27%
Fat and bone	no value	27%

Source: MLA

Figure 1: Australian beef sales and farm gate values



Source: ABARE, ABS, MLA

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