

2011



# Australian cattle **Industry projections**

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# 2011

Author: Tim McRae

For more information call MLA on 02 9463 9163

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# Table of contents

## Section 1 – Beef and veal

1. Overview .....	1
2. Beef Farm Incomes .....	3
Key Assumptions .....	4
3. Australian Cattle Herd .....	6
4. Cattle Slaughter .....	7
5. Beef Production .....	9
6. Feedlot Activity .....	9
7. Global Beef Demand .....	10
8. Beef Exports .....	12
8.1 Japan .....	14
8.2 Korea .....	16
8.3 United States .....	17
8.4 Indonesia .....	19
8.5 Other South East Asia .....	20
8.6 Taiwan .....	21
8.7 Greater China .....	22
8.8 Russia .....	22
8.9 EU .....	24
8.10 Middle East .....	24
9. Domestic Market .....	25

## Section 2 – Live cattle exports

1. Live Cattle .....	29
Box 1 Brazilian beef production and export .....	28

Sources and acknowledgements .....	33
Acronyms .....	34

## Figures

1 Australian rainfall Jan 2010 - Dec 2010 .....	1
2 Australian cattle prices .....	1
3 Australian saleyard cattle prices .....	1
4 Average beef farm cash income .....	4
5 Australian cattle herd .....	6
6 Australian female cattle numbers .....	6
7 Australian cattle herd moving north .....	7
8 Australian adult cattle slaughter .....	7
9 Australian cattle turnoff .....	8
10 Australian beef and veal production and slaughter weights .....	9
11 Australian cattle on feed .....	9

## Figures – continued

12 Australian feeder cattle and feed grain prices ..	10
13 Global food and meat prices indices .....	11
14 Economic growth for key countries .....	11
15 A\$ against US\$ and Japanese yen .....	13
16 Australian beef exports by key destinations ..	14
17 Beef exports and percentage of production ....	14
18 Australian beef exports to Japan .....	15
19 Australian grainfed beef exports and prices to Japan .....	15
20 Japan beef imports .....	15
21 Australian beef exports to Korea .....	16
22 Korean beef imports .....	17
23 Australian beef exports to the US .....	17
24 US cattle prices .....	18
25 US cattle herd .....	18
26 Australian beef export prices to the US .....	19
27 Australian beef exports to Canada .....	19
28 Australian beef exports to Indonesia .....	20
29 Australian beef exports to Philippines Malaysia and Singapore .....	20
30 Australian beef exports to Taiwan .....	21
31 Australian beef exports to China and Hong Kong .....	22
32 Australian beef exports to Russia .....	22
33 South American beef exports to Russia .....	23
34 Australian beef exports to the EU .....	24
35 Australian beef exports to Middle East .....	25
36 Beef consumption and retail price .....	25
37 Consumer expenditure on beef .....	25
38 Brazilian cattle slaughter .....	28
39 Brazilian beef exports .....	28
40 Australian live cattle exports and value .....	29
41 Live cattle exports and value to Indonesia ....	30
42 Indicative live cattle and slaughter cattle prices .....	31
43 Live cattle exports to the Middle East .....	31
44 Live cattle exports to other destinations .....	31

## Tables

1 Situation and outlook for the Australian cattle industry .....	5
2 Australian exports of beef and veal .....	13
3 Beef tariffs/quotas – 2011 .....	27
4 Australian live cattle exports .....	29

# Section 1 – Beef and veal

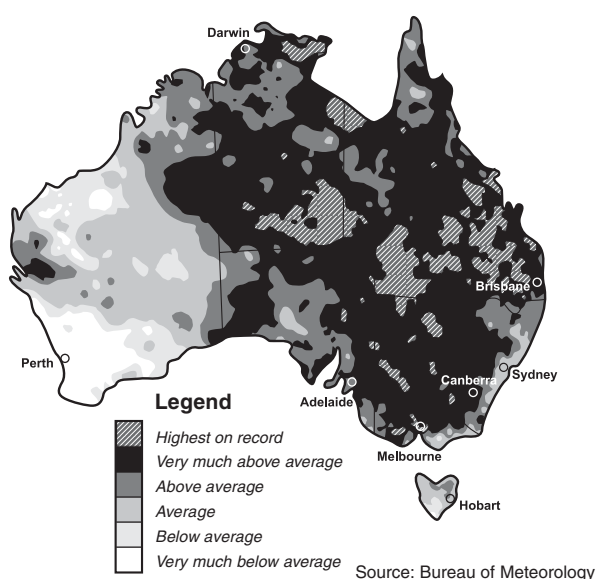


## 1. Overview<sup>1</sup>

The Australian beef and cattle industry has been presented with a set of opportunities to start 2011 that could finally deliver on long awaited financial improvements. Most notably, the drenching of 2010 and early 2011 has washed away the drought conditions that had plagued much of Australia for most of the past decade, with the unfortunate exception of southern WA.

**Figure 1**

Australian rainfall Jan 2010 - Dec 2010



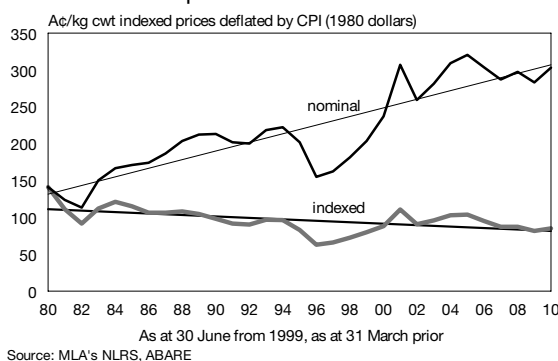
However, while dams and rivers have been replenished, many cattle producers will be looking to replenish cash flows and reduce debts on the back of the better seasons in 2010 and 2011, something that should be made easier with the expectation of improved cattle prices. Indeed, many producers are expected to be faced with the delicate balance of wanting to rebuild drought depleted herds, while still needing to maintain cash flows, reduce debt and capitalise on the expected better markets.

However, like any year, several negatives and risks continue to hover in 2011. Undoubtedly, the high A\$ will remain a significant constraint upon the industry, especially for exporters, along with the drought in WA. Increased competition in key north Asian markets from US beef will impact market shares in both Japan and Korea, while economic concerns still hamper demand across Japan, the US and the EU.

Cattle prices have started 2011 at significantly higher levels than for the same period in 2010, distorted by the flooding across four states, most notably through the south east of Queensland. Taking into account the jump in prices during January, prices for 2011 are expected to average above 2010 levels.

**Figure 2**

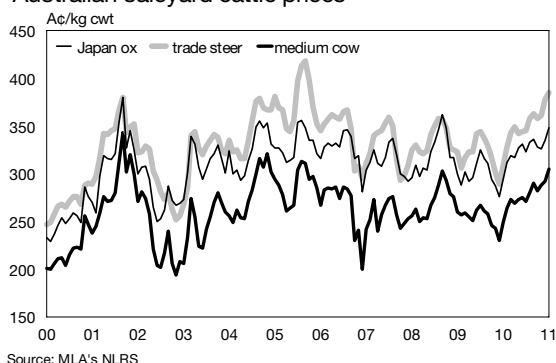
Australian cattle prices



For the majority of 2010, cattle markets were driven by the combined influence of reduced supplies and robust demand for young cattle. Given the outlook for the first half of 2011 and production surety across many key beef regions, this feature of the market will continue in 2011. Indeed, young cattle prices in 2011 are expected to average higher for the year.

**Figure 3**

Australian saleyard cattle prices



The main change in market conditions for 2011 is that beef demand is starting the year at a higher level than in 2010. For 2010, beef demand was largely overshadowed by the supply issues during the first half of the year, and only really started to show its influence on the market in the final third of the year.

<sup>1</sup> Except where otherwise stated, this report refers to forecasts for calendar years 2011 to 2015.

# Beef and veal

For 2011, export demand for Australian beef is expected to increase, helping to lift average heavy cattle prices for the year. The forecast for higher heavy cattle prices comes even with an expected modest increase in supply, a result of the much better seasons in 2010 and 2011, and expectations for the A\$ to remain close to parity.

Indeed, the final four months of 2010 gave a glimpse of the impact that the recovery in global demand, combined with falling global supplies, should have upon the market in 2011.

With the very wet 2010 and good prospects for the year ahead, the Australian cattle herd is forecast to begin an expansion, increasing 2.6% in 2010-11, to 27.4 million head. The forecast growth in the herd by June 2011 is somewhat conservative, given the turnaround in the season, but takes into account the impact of several years of drought and the producer's need for cash flow.

After bottoming out in 2010, Australian cattle slaughter is forecast to increase 2.6% in 2011, to 7.675 million head. Beef and veal production will be accentuated by continued high average carcase weights – a result of the improved seasonal conditions. Beef and veal production for 2011 is forecast to total 2.19 million tonnes cwt, up 2.5%.

The increased production in 2011 will largely be utilised in export markets, as demand continues to recover.

However, one of the features of the 2011 export projections is that most of the growth will continue to come from outside of the three largest markets. Russia, Indonesia and the Middle East will maintain the trend of recent years of an increased proportion of total exports going to markets other than Japan, the US and Korea.

Australian beef and veal exports in 2011 are forecast to hit 953,000 tonnes swt, up 3.3% on 2010. Exports to Japan are expected to remain steady and slip to Korea, as market share is eroded in both markets by the US.

Lower local beef supplies and higher imported beef prices are expected to assist a modest recovery in exports to the US. Reduced beef supplies from South America should assist in growing demand for Australian beef to Russia, the Middle East, China/ Hong Kong and other parts of South Asia.

Given the decline in global beef supplies in recent years, and the improvement in demand throughout 2010, global beef prices are expected to increase significantly in 2011. This is already in evidence, with US choice fed cattle prices commencing 2011 25% higher than a year earlier.

Domestic demand for beef is expected to remain solid in 2011, with a small rise in total consumption and expenditure at least stable in real terms, despite stronger competition from exporters. Expected population and income growth sets a basis for steady growth in retail and foodservice demand over the coming five years, though a resurgent export market, and consequent rising prices, could limit further consumption gains.

After a mixed 2010, Australia's live export industry is expected to face another year constrained by regulations restricting numbers into Indonesia. The Middle East is anticipated to offset some of the impact, both in the short and medium term, fuelled by increasing demand for protein and new markets, such as Turkey. However, total numbers for 2011 and beyond will be largely determined by market access conditions, both to Indonesia and many Middle Eastern markets.

Overall, the fundamentals of the global beef markets points to a period of rejuvenated demand and higher prices, helping to offset the influence of the A\$. Accentuating this will be tight global beef supplies, as most major cattle herds continue to fall, or remain steady at best. Additionally, the potential for significant trade deals with major trading partners (especially Japan and Korea) could add impetus to an already positive outlook for the Australian beef and cattle industry.

## 2. Beef Farm Incomes

The ability, or indeed the inability, of cattle producers to sustain cash flows will have a substantial impact on beef farm incomes for the current fiscal year. Whether it has been a lack of suitable cattle for sale after several years of drought, the inability of cattle to reach the market (due to the very wet conditions), losses from flooding or producers withholding cattle to make the most of the better seasonal conditions, the influence of lower stock sales upon cash incomes and financial viability has been significant.

After several very tough years, both seasonally and financially, many producers will have welcomed the massive improvement in the season in 2010, and look forward enthusiastically to the impact on productivity and turnoff rates over the medium term.

However, before they can increase marketing and turnoff (and hopefully incomes), producers must go through the delicate, and sometimes very difficult, process of deciding what to keep and sell, especially with cattle prices averaging much higher throughout the first half of the 2010-11 fiscal year (July – December 2010).

This decision process will be made all the harder by the very high cost of purchasing cattle in 2010-11, which favours producers retaining cattle and rebuilding internally – limiting sales and cash flows over the short term.

For the first seven months of the 2010-11 fiscal year (July 2010 – January 2011), Australian average cattle prices were up 9-14% on a year earlier, with the largest annual increase for cows and young cattle. As the higher prices will have a positive impact on cash incomes, the number of cattle sold during the same period declined 6%.

The decline in turnoff is a combination of the reduced supply of cattle after several years of lower brandings, producers withholding cattle on the back of the better season, and logistics, transport and mustering delays – best demonstrated by the unprecedented disruptions caused by the 2011 Queensland floods.

Indeed, while the higher cattle prices for 2010-11 will assist farm cash incomes, the costs of purchasing cattle will also be significantly higher. Additionally, while many producers across the eastern states will have lower feed cost, due to the abundant grass, on-farm cost are expected to increase overall, especially for those regions and producers who have experienced flood damage.

One of the main issues that will impact farm cash incomes for many mixed producers in 2010-11 will be the significantly reduced return from cropping. In October, many producers eagerly anticipated the long awaited financial boost from the best crops in generations. However, this was shattered for many producers throughout November, December and January as heavy rain wreaked havoc on quality and harvesting activities. With the significant financial hit from the rain affected harvest in 2010-11, many producers may be forced to sell additional cattle in 2011, in order to maintain cash flows, which may have otherwise been covered by the grain harvest.

According to the Australian Bureau of Agricultural and Resource Economics (ABARE), farm cash income for northern Australian beef producers was estimated to have declined 18% in 2009-10, to A\$66,000. Reduced receipts from beef cattle sales were the main influence upon average returns.

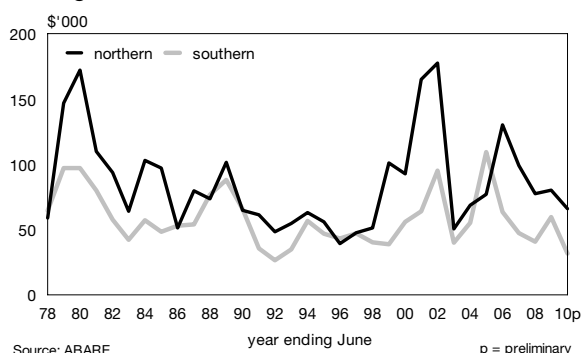
For the southern beef industry, the drought was again the main constraint on profitability for 2009-10, either through lower prices in late 2009, or via the impact of tighter numbers once seasonal conditions improved in early 2010. On average, southern beef producers are estimated to have suffered a 47% decline in farm cash income in 2009-10, to A\$31,700.



# Beef and veal

**Figure 4**

Average beef farm cash income



While beef farm cash incomes for 2010-11 are expected to be similar to 2009-10 levels, the key drivers have changed markedly. Higher prices should be partly offset by lower cattle sales and the increased cost of purchasing cattle, whether for rebuilding, restocker or finishing.

In addition, there are the immediate added costs from flooding, and the lingering influence of the previous decade of drought on both productivity and capital costs.

However, looking beyond 2010-11, farm cash incomes are anticipated to improve, the payoff from the hard decision to reduce cash flows and cattle sales in 2010. Additionally, the flow through of the breaking of the drought and better season on branding rates will provide producers with additional cattle for sale. Indeed, the combination of several years of production certainty, with ample feed and water and robust global demand for beef, is expected to see returns to Australia's beef producers improve from 2011-12, even if the A\$ stays at its historically high levels.

## Key Assumptions

- For 2011, it has been assumed that the A\$ will trade between 95 and 105US¢, averaging 100US¢, up 9% on 2010. Given the volatility of the A\$ in recent years, particularly following the Global Financial Crisis (GFC), it is impossible to confidently predict the level of the A\$. In 2010, the A\$ averaged 92US¢, an increase of 16% on 2009's average of 79.3US¢, and traded in a 20¢ range, between a low of 82US¢ and 102US¢.
- Against the Japanese yen, the A\$ is assumed to trade between 75 and 85¥ in 2011, averaging 80¥, similar to 2010. In 2010, the A\$ average 80.5¥, up 8% from the previous year's average of 74¥, and ranged between 73.4 and 87.5¥.
- Based on forecasts by the International Monetary Fund (IMF), global economic growth is expected to ease slightly in 2011, but remain well above the GFC influenced levels of 2008 and 2009. In 2011, world economic growth is forecast to reach 4.4% and 4.5% in 2012, with growth expected for the major markets of the US, Japan, Korea, Russia and South East Asia.
- The trade situation for US beef into Japan is assumed to remain unchanged in 2011, with beef only accepted from animals less than 21 months of age. Under this assumption, US beef imports are forecast to reach 115,000 tonnes swt in 2011, up around 26% on 2010.
- Despite the agreement on a Free Trade Agreement (FTA) between the US and Korea in late 2010, the age restriction for US beef from animals less than 30 months of age remains in place. As such, US beef exports to Korea in 2011 are forecast to be 125,000 tonnes swt, a rise of 47% on estimates for 2010.
- On the back of the third wettest year on record across eastern Australia, seasonal conditions for most cattle producing regions in 2011 should be very good, once the floods recede.
- In contrast, seasonal conditions for southern West Australia (WA) in 2011 are expected to remain tough, although a good autumn break may see the outlook brighten significantly.
- After many years of negotiations, 2011 is shaping up as a year of progress for trade access, especially into Korea and Japan. Free Trade Agreement (FTA) discussions could be concluded with both these major beef markets and commence in 2011 or 2012. These FTAs promise to have a substantial, but slow, impact on the beef industry, with a phased reduction in tariffs over many years.



Table 1 Situation and outlook for the Australian cattle industry

	2007	2008	2009	2010 <sup>p</sup>	% change	2011	% change	2012	2013	2014	2015	% change 2015 on 2010p
<b>Cattle numbers ('000 head)*</b>	28,037	27,321	27,907	26,733		27,428		27,990	28,524	28,984	29,351	
percentage change	-1.3%	-2.6%	2.1%	-4.2%		2.6%		2.0%	1.9%	1.6%	1.3%	9.8%
<b>Slaughtering ('000 head)</b>												
cattle	8,000	7,853	7,583	7,484	-1.3%	7,675	2.6%	7,950	8,093	8,299	8,400	12.2%
calves	901	798	828	805	-2.8%	825	2.5%	888	910	942	970	20.5%
total	8,901	8,651	8,411	8,289	-1.5%	8,500	2.5%	8,838	9,004	9,241	9,370	13.0%
<b>Avg carcass weight (kg)</b>												
cattle	267.4	269.1	272.5	278.8	2.3%	279.0	0.1%	280.0	281.0	282.0	283.0	1.5%
calves	32.5	31.0	43.0	58.0	34.9%	55.0	-5.2%	55.0	55.0	55.0	55.0	-5.2%
<b>Production ('000 tonnes carcass weight)</b>												
beef	2,140	2,114	2,066	2,087	1.0%	2,141	2.6%	2,226	2,274	2,340	2,377	13.9%
veal	29.3	24.7	40.0	46.7	16.7%	45.4	-2.8%	48.8	50.1	51.8	53.4	14.3%
total beef and veal	2,169	2,138	2,106	2,133	1.3%	2,187	2.5%	2,275	2,324	2,392	2,431	13.9%
<b>Cattle exports ('000 head)</b>	719	869	954	874	-8.4%	880	0.7%	900	920	950	1,000	14.4%
<b>Beef exports** ('000 tonnes)</b>												
total, carcass weight	1,390	1,414	1,370	1,363	-0.5%	1,406	3.2%	1,474	1,515	1,569	1,598	17.2%
total, shipped weight	941	957	927	923	-0.5%	953	3.3%	998	1,026	1,062	1,085	17.6%
<b>Domestic utilisation ('000 tonnes c/c weight)***</b>												
imports	3.0	2.9	3.0	4	33.3%	4	0.0%	4	5	6	6	50.0%
total, carcass weight	749	703	713	746	4.7%	755	1.2%	770	780	790	800	7.2%
kg/head	35.5	32.7	32.5	33.4	2.8%	33.3	-0.3%	33.5	33.4	33.4	33.3	-0.3%

Source: ABS, DAFF, MLA forecasts

*forecast in italics*

*p = preliminary 2010 Australian cattle herd. Final numbers available in April 2011.*

\* As at 30 June

\*\* excl. canned/misc, shipped weight

\*\*\* Beef and veal production plus imports, less exports of beef and veal and canned/processed beef, carcass weight

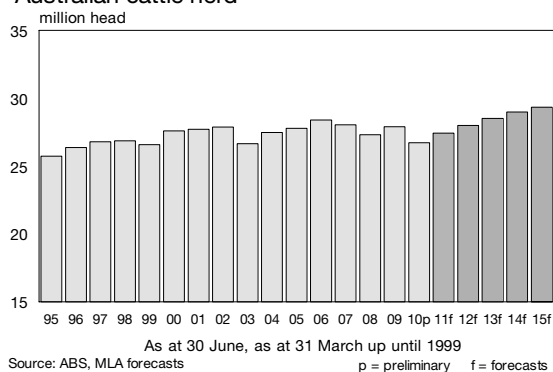
## 3. Australian Cattle Herd

The Australian cattle herd is anticipated to enter a period of expansion in 2011 and beyond, with the drought's long-grip upon eastern Australia throughout the past decade finally broken. 2010 was the wettest year on record in Queensland and third wettest nationally, signalling a surety of feed and water supplies throughout the coming year. The exception is southern WA, which suffered the driest year on record in 2010, with conditions likely to remain tough at least until autumn.

However, herd rebuilding will be significantly influenced by the impact of the record flooding throughout Queensland in early 2011 and the possibility of significant cattle losses. While the exact impact of the flooding will not be known for some time, the extent and severity of the flooding is unprecedented, especially with the wet season only half way through. While losses have been assumed from the flooding in 2010 and early 2011, with significant short term pain, the very wet 2010 points to a positive outlook and expanding herd into the medium term.

The Australian Bureau of Statistics' (ABS) preliminary estimate for the Australian cattle herd as at 30 June 2010 was 26.733 million head, 4.2% lower than twelve months earlier. Contributing to the decline in the national cattle herd throughout 2009-10, was the fallout from three consecutive years of very low branding rates – primarily due to the drought across key cattle producing regions of eastern Australia.

**Figure 5**  
Australian cattle herd

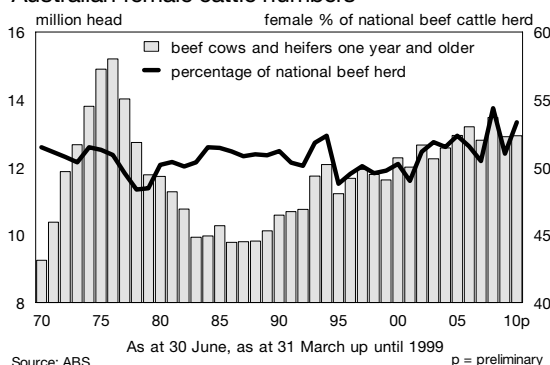


Indeed, the 1.2 million head decline in the national herd was largely due to a contraction in the numbers of male cattle on hand as at the end of 2009-10. This decline was a combination of several factors, including the low branding rates, increased live cattle exports and forced turnoff of male cattle due to drought.

There was an erosion of "older" male cattle that would traditionally have been held through to three years of age or beyond for finishing. The lack of "older" male cattle was both an impact of the drought and forced selling and sluggish prices for heavy cattle (for Japan and Korea), along with the need for producers to market cattle to improve cash flow.

As at 30 June 2010, the national female cattle herd stood at 12.93 million head, steady with the previous year. The significant turnaround in seasonal conditions very early in 2010 contributed to the retaining of female cattle throughout the year. National slaughter of adult female cattle in the first six months of 2010 declined 7% year-on-year, with 13% and 17% contractions in New South Wales (NSW) and Victoria, respectively.

**Figure 6**  
Australian female cattle numbers



Given the steady national cow herd, combined with the better seasonal conditions, the Australian cattle herd is expected to increase by 2.6% in the year to 30 June 2011, to 27.4 million head.

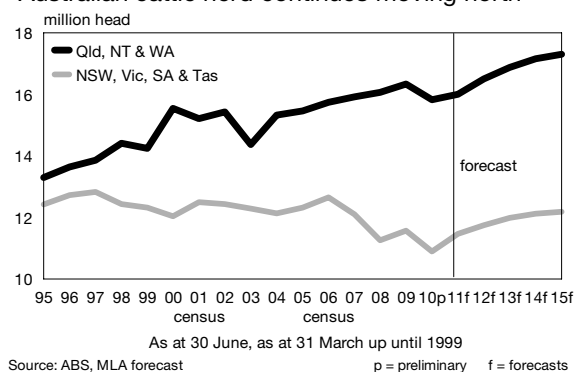
The prospect for very good seasonal conditions throughout 2011 and into 2012 (except in WA) would normally point to faster herd growth.

However, the outlook for the Australian herd in 2011 is heavily influenced by the financial stress many producers currently face after years of drought, and now for some regions, devastating floods. Like every other business, the need for cash flow is constant, and producers in 2011 will face the delicate balancing act between selling stock for cash flow and retention to rebuild drought depleted herds for the years ahead.

On a state by state basis, herd growth is expected across all the eastern states in 2011 and 2012, with the greatest expansion in northern NSW, Queensland and the Northern Territory (NT). While numbers for the southern states (Victoria, South Australia and Tasmania) will still be well below the 2004 and 2005 peaks, some herd growth is expected, as producers look to capitalise on the better pasture supplies.

**Figure 7**

Australian cattle herd continues moving north



In contrast to the east, the WA cattle herd is forecast to decline in the year to June 2011, as the drought, higher cattle slaughter and record movements of cattle to the east depletes available numbers. The WA herd numbers beyond June 2011 will depend largely upon seasonal conditions, though the southern WA cattle industry is expected to continue to face pressure from cropping and lamb production over the medium term.

While the improved seasonal conditions in 2011 and 2012 will be the main driver for herd growth throughout 2011 and 2012, higher beef prices and returns to producers is expected to maintain the herd growth through to 2015.

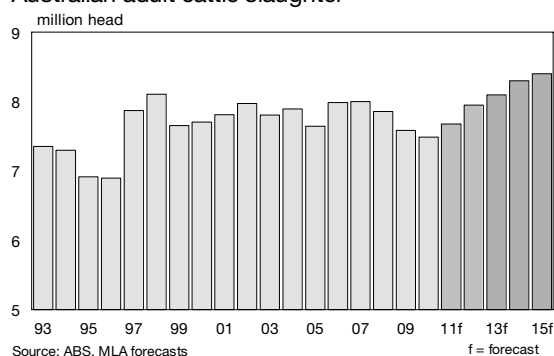
By 2015, the Australian cattle herd is projected to reach 29.35 million head – an increase of 10% over five years, but somewhat accentuated by the lower 2010 herd.

## 4. Cattle Slaughter

Australian adult cattle slaughter for 2011 is forecast to reach 7.675 million head – an increase of 2.6% on the estimate for 2010. The increase in slaughter for 2011 will be largely due to higher numbers during the second, third and fourth quarters of the year, with cattle movements and processing operations severely disrupted during the first quarter of 2011.

**Figure 8**

Australian adult cattle slaughter



Some disruption to cattle movement from heavy rain during the northern wet season is normal for the January to March period. However, the unprecedented flooding across Queensland and northern NSW has caused major infrastructure and property damage, promising a more severe and prolonged disruption.

Estimated at 7.484 million head, adult cattle slaughter in 2010 was the lowest since 1996, and some 500,000 head below the 2007 peak of 8 million head. Annual adult cattle slaughter for the past decade (2001-2010) averaged 7.8 million head.

While the very wet start to 2010 saw a contraction in cattle turnoff and slaughter during the first quarter of the year, it also set the trend for the rest of the year. After several years of drought across eastern Australia, 2010 was the third wettest year

## Beef and veal

on record, with Queensland having it wettest year. While the rain culminated in record flooding and unprecedented damage over a wide area in early 2011, it broke the drought in eastern Australia, setting up many regions for a very productive period over the medium term.

The severity of the drought conditions between 2007 and 2009 significantly impacted branding rates, and consequently, the number of cattle available for slaughter in following years. The flow-on impact of the reduction of cattle will continue into 2011, although slowly diminishing throughout the year.

The forecast slaughter of 7.675 million head in 2011, while up 2.6% on 2010, will still be historically low, as the rebuilding of numbers and most importantly, better branding rates, will take time to flow through and impact turnoff rates.

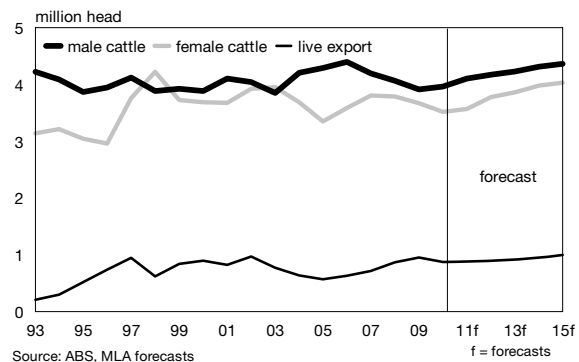
Additionally, the better season in 2010, and bright prospects for 2011 (once the current flooding and damage recedes) will see producers retaining cattle for both rebuilding purposes and finishing.

With virtually all of eastern and northern Australia set for a bumper year in 2011, the desire for producers to make the most of ample pasture supplies will be immense – although balanced by a strong need for cash flow for many producers.

As regions dry out, especially across Queensland, the flow of very well finished heavy cattle is expected to gather pace in to the second quarter, again framed by the desire for cash flow before the end of the 2010-11 fiscal year.

Slaughter in the second and third quarters of 2011 is forecast to reach 2 million and 1.98 million head, respectively, with second quarter slaughter forecast to be the highest since the second quarter of 2008.

**Figure 9**  
Australian cattle turnoff



Male cattle will be the main contributor to the higher slaughter numbers for 2011. This will be heavily influenced by the backlog of finished cattle that had been making the most of the better season throughout 2010. In previous years, these cattle may have been marketed earlier, but in 2010 producers were either keen to retain cattle to make the most of the ample pasture, or unable to get stock to market due to the wet weather.

In 2011, male adult cattle slaughter is forecast to reach 4.1 million head – up 3.5% on 2010's estimated 3.9 million head, but still well below the 4.4 million head processed in 2006.

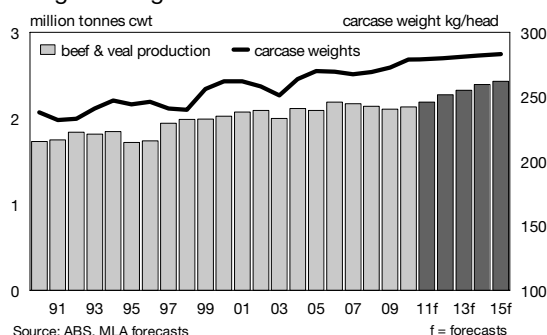
Given the better seasonal conditions for the past 12 months, the desire to rebuild cattle herds has strengthened. After falling for the past three years, largely due to drought liquidations in 2008 and 2009, and then retaining in 2010, female slaughter in 2011 is forecast to reach 3.57 million head. While up slightly on 2010 (3.52 million head), female throughput will still be low historically – 3% below the average for the past five years.

From 2012 onwards, adult cattle slaughter is expected to increase steadily, though still constrained by continued rebuilding efforts. From 7.675 million head in 2011, adult cattle slaughter in 2012 is forecast to reach 7.95 million head and surpass 8 million head by 2013. By 2015, adult cattle slaughter is forecast to hit 8.4 million head, up 12% on 2010, as the larger cattle herd facilitates increased turnoff levels.

## 5. Beef Production

Australian beef and veal production for 2011 is forecast to increase 2.5% on 2010, to 2.187 million tonnes cwt. This increase is expected to be solely due to the increase in adult cattle slaughter, as carcase weights remain steady, given the sharp increase in weights during 2010.

**Figure 10**  
Australian beef and veal production and slaughter weights



In response to the better season, weights in 2010 are estimated to have averaged 278.8kg/head – a significant jump of 6kg in one year. However, when considering the extent of the improvement in the season in 2010, such an increase was largely expected.

While weights increased across all states, with the exception of WA, the largest year-on-year rises were in NSW and Victoria – reflecting the much better pasture supplies in 2010, but also the impact of the drought in 2009. Queensland continues to have the highest average weights, at 298kg/head in 2010, assisted by the production of grass and grain fed Japan steers, mainly processed in southern Queensland.

Somewhat constraining the influence upon weights in 2011 will be the relatively lower numbers of very heavy grainfed cattle being turned off by Australian lot feeders. With grass in ample supply across the eastern states, forecast for higher feed grain prices and subdued demand for longer fed cattle, the numbers of cattle coming forward for processing at the very heavy end of the market will remain tight.

For 2012, Australian beef and veal production is forecast to rise 4% to a record 2.275 million tonnes cwt – assisted by the combination of a small increase in weights (280kg/head) and 3.6% increase in adult cattle slaughter.

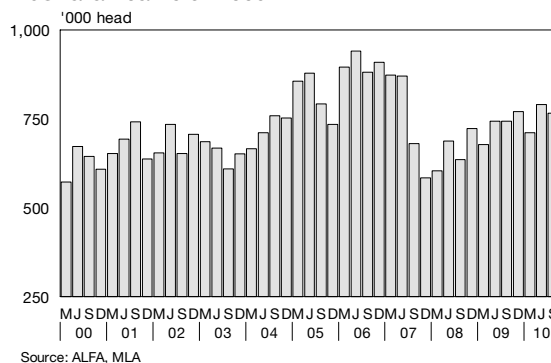
On the back of an expanding cattle herd and associated rising slaughter levels, and steady increase in weights, Australian beef and veal production is forecast to reach 2.4 million tonnes cwt by 2015, up 14% on 2010.

## 6. Feedlot Activity

Abundant pasture, combined with rising grain and feeder cattle costs, point to a difficult 2011 for the Australian lot feeding industry. Additionally, with the A\$ assumed to average close to parity in 2011, and Japanese demand for grainfed beef remaining sluggish, market signals for Australian grainfed beef remain tough for the year ahead.

The most recent results from the ALFA/MLA quarterly lot feeding survey showed that for the September quarter 2010, there was 765,000 head of cattle in Australian feedlots – 22,000 head more than the corresponding period in 2009. Given the somewhat tough market outlook for grainfed beef for the year ahead, and expectation for strong demand and prices for young cattle, the number of cattle on feed is anticipated to remain below 800,000 throughout 2011.

**Figure 11**  
Australian cattle on feed



# Beef and veal

Given the tough export conditions, and lower prices for grainfed beef in recent years, the market has seen a shift towards cattle being on feed for fewer days. Assisted by robust domestic demand and a lowering of average days on feed for Japan, cattle marketings rose much faster than numbers on feed during the second half of 2010.

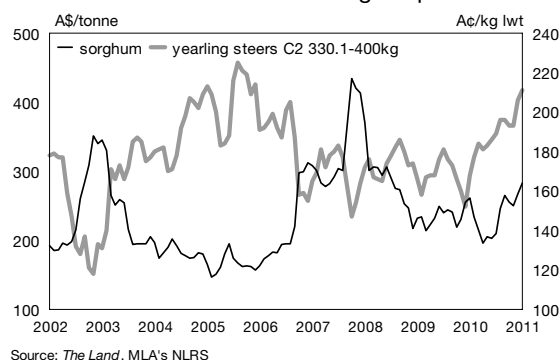
For the September quarter of 2010, 710,000 head of cattle were marketed out of Australian feedlots - the second highest number on record. The only other time that quarterly marketing exceeded 700,000 head was during the third quarter of 2006, at 723,000 head. However, in 2006, the high marketing rates was due to the 940,000 head on feed in the previous quarter (June 2006); while for corresponding period in 2010, there were only 790,000 head on feed. The shorter days on feed is expected to continue in 2011.

As rain in late 2010 delivered widespread damage to winter crops, feed grain supplies have increased, with prices falling. While feed grain prices did ease in the wake of the wet finish to 2010, prices increased in 2011, influenced by the high global grain prices. Also, much of the previously forecast near-record harvest was too damaged for any harvesting, influencing feed grain prices.

With global grain prices expected to rise throughout 2011, due largely to lower global supplies and stocks and recovering demand, the upwards pressure upon feed grain prices is expected to continue, a further negative for lot feeders.

With restockers and finishers flush with grass in 2011, the competition faced by lot feeders to secure adequate numbers is expected to be very fierce. The national indicative feeder cattle price (yearling steer, C2, 330-400kg lwt), as collected by MLA's National Livestock Reporting Service (NLRS), increased 35% from the start of the year to the end, peaking at 212¢/kg lwt in the final week of December. For 2010, the indicative feeder steer price averaged 12% above 2009, at 188¢/kg lwt – the highest calendar year average since 2005.

**Figure 12**  
Australian feeder cattle and feed grain prices



With a strong cattle price outlook for 2011, underpinned by many of the same factors as 2010, feeder cattle prices are expected to remain historically high throughout the year, as restockers and grass finishers dictate the market. Add to this the expectation for higher grain prices, and it seems unlikely that finished cattle and grainfed beef prices will be able to keep pace with the higher input costs.

For 2012 and beyond, a sustained improvement in the numbers of cattle on feed will be dependant upon a numbers of factors, including feed grain prices and the competitiveness of feeders for available cattle supplies. However, after several years of subdued prices, an improvement in grain fed beef prices, either through a lower A\$ or increased export prices, would help to offset the expectation of higher costs.

## 7. Global Beef Demand

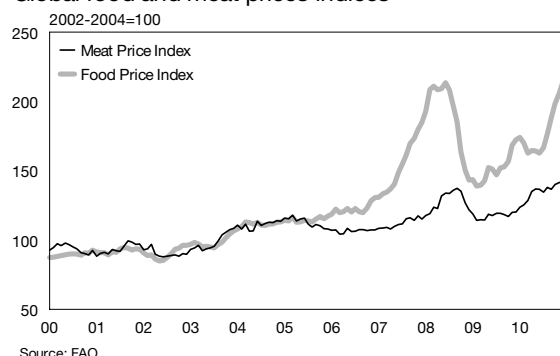
Global demand for beef is forecast to increase in 2011, as the growing global economy rekindles demand for proteins, particularly beef, after some tumultuous years in the wake of the Global Financial Crisis (GFC) in mid 2008.

After over two years of demand being the main constraint upon the global beef industry, especially for an export dominant country like Australia, the focus has now shifted to supply, with many of the cattle herds in major beef producing nations falling during the past two years.



With beef demand recovering to pre GFC levels, and supplies just as tight, if not lower than in mid-2008, global beef prices rose quickly in late 2010. According to the United Nations' Food and Agriculture Organisation (FAO), global meat prices increased 18% in 2010, to finish December at the highest level on record.

**Figure 13**  
Global food and meat prices indices



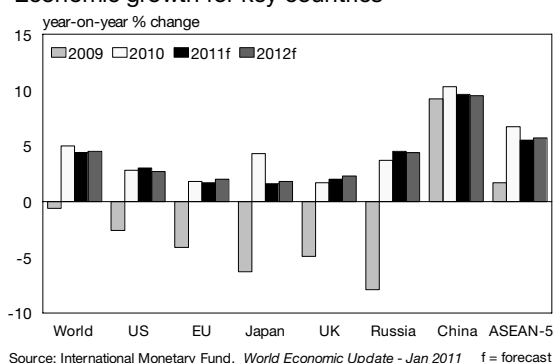
Beef demand and prices in 2011 are expected to surpass the levels recorded during the first half of 2008, when the global food prices inflation was capturing plenty of global attention. Indeed, after the shock of the second half of 2008, slump in 2009 and recovery in 2010 (in most markets), 2011 is expected to be the year when global beef prices push higher, and possibly to unprecedented levels.

The recovery in beef prices after the global economies' worst economic slump since the 1930s, has been remarkably quick – especially given the ongoing poor economic situation in the US, Europe and Japan.

The robust economic conditions and strong consumer demand in emerging and developing nations, especially Brazil, China, Russia, the Middle East and South East Asia, has added a new dimension to the global beef market, reducing the traditional heavy influence of the advanced nations. Their robust economic growth and rising incomes, and desire to eat protein, will place added pressure upon already tight global beef supplies in 2011.

According to the latest *World Economic Outlook*, released by the International Monetary Fund (IMF), economic conditions are expected to remain strong during 2011 – with almost every major economy recording positive economic growth. Interestingly, economic growth in some advanced nations is forecast to ease slightly – much of this due to the reduction of government stimulus spending.

**Figure 14**  
Economic growth for key countries



Global economic growth in 2011 is projected at 4.4%, after an estimated 5.0% growth in 2010, a significant improvement from the 2.8% in 2008 and -0.6% in 2009.

While advanced economies in 2009 were in deep recession, with growth at -3.4%, developing nation recorded 2.6%. Similarly, in 2011, developing nations are projected to register economic growth of 6.5%, down slightly from 7.1% in 2010. In comparison, advanced economies are forecast to expand by only 2.5% in 2011, down from 3.0% in 2010.

Importantly, the 2011 expansion in advanced economies is expected to be driven by the private sector, without the huge injections of government spending of late 2008, 2009 and 2010. In fact, some of the decline is expected to be due to governments taking steps to moderate growth, largely to keep inflation under control.

Economic growth in the US for 2011, according to the IMF, is expected to reach 3.0%, up from 2.8% in 2010, and well above the -2.6% recorded in 2009.



# Beef and veal

High unemployment remains a huge issue for the US economy, with only a slight improvement expected in 2011, from 9.7% to 9.6%. However, many of the concerns about a possible double dip recession seem to have disappeared. Assisting the US economy throughout 2010 was a very weak US dollar, which is expected to remain throughout 2011.

For Japan, economic growth in 2011 is expected to reach 1.6%, which would give it two years of expansion, after an estimated 4.3% in 2010. However, overall Japan's economy is expected to remain sluggish in 2011, with high unemployment (by Japanese standards) and deflation to remain major concerns. Indeed, according to the IMF, consumer prices in Japan are forecast to fall -0.3% in 2011, following -1% in 2010 and -1.4% in 2009.

After very tough conditions in 2009 and 2010, economic growth across Europe is expected to be positive, at 1.5% in 2011. However, the debt issues that plagued European financial markets are likely to remain throughout the year, especially in Greece (-2.6%), Portugal (0%) and Spain (0.7%). Overall, economic conditions throughout the region in 2011 are expected to be solid, underpinned by the strength of the major economies of Germany (2.2%), France (1.6%) and the UK (2%).

According to the IMF, economic conditions for almost all developing nations are expected to remain robust for 2011, at 6.5%, led again by China (9.6%) and India (8.4%). South East Asia is forecast to expand by 5.5% in 2011, with Indonesia growing at 6.2%.

The economic conditions to Russia are also forecast to remain healthy in 2011, at 4.5% – a vast improvement from -7.9% in 2009. As a major protein and beef importer, a robust Russian economy is expected to have a major impact on global meat and beef prices in 2011.

Growth in 2011 is also anticipated to continue across the Middle East and North African region, at 4.6%, up from 3.9% in 2010.

The very strong economic conditions that saw the Brazilian economy expand by 7.5% in 2010 are expected to continue in 2011, though at a more sustainable level of 4.5%. Throughout 2010, the combination of an appreciating Brazilian real and very strong domestic demand saw beef redirected onto the domestic market that would have otherwise been exported.

In response to the strong economic growth, 2011 consumer prices in Brazil are forecast to increase 4.6%. Indeed, with increasing prices, strong consumer demand, a very strong currency (impacting export returns) and a population in excess of 200 million people with a preference for beef, more Brazilian beef is likely to stay on the local market, again limiting growth in beef exports and helping to lift global beef prices.

Overall, the combination of expanding global beef demand in 2011 and constrained supplies is expected to see sustained upwards pressure upon global beef prices. As the world's second largest beef exporter, Australia, will be well placed to benefit from this growth, even with the A\$ assumed to stay high throughout 2011.

Over the medium to long term, the likelihood of improved trading conditions within existing major markets is expected to add strength to the demand for Australian beef in the global marketplace – a situation that could only be magnified if the A\$ depreciates. Eventually, higher prices should entice an expansion in cattle herds and beef farm productivity, especially in South America, the US and China, to cap the rise in prices.

## 8. Beef Exports

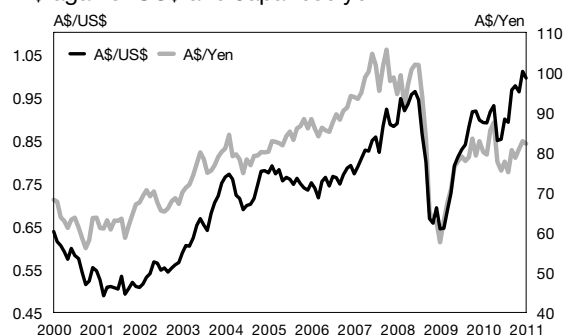
Australian beef and veal exports finished 2010 at 922,800 tonnes swt – only 0.5% below 2009. However, it was a difficult and unpredictable export year, impacted by the very slow start to trading, with flooding impacting production and sluggish demand from major markets, not helped by a appreciating A\$. Exports were on track to come in

at below 900,000 tonnes half way through the year. However, demand and supplies improved throughout the second half of 2010, helping to offset the spectre of the A\$ hitting parity.

Australian beef exporters felt significant pain from the rise of the A\$ during 2010, averaging 16% higher than the previous year, at 92US¢, and it appears things are unlikely to improve on the A\$ front in 2011. However, what is anticipated to improve is both demand and most importantly, global beef prices, which should more than offset the blow from the higher currency.

**Figure 15**

A\$ against US\$ and Japanese yen



Source: RBA

In 2010, Japan was easily Australia's largest beef export market, receiving 356,200 tonnes swt, with the US and Korea in second and third place, with 185,000 tonnes swt and 124,100 tonnes swt, respectively. Exports to Japan were unchanged on the previous year and exports to Korea increased 7% year-on-year.

However, the feature was the 26% decline in beef exports to the US, which was due to several factors, including the record high A\$.

Following the trend started in 2008, the 2010 export year again saw historically high volumes of Australian beef sent to markets other than Japan, the US and Korea – the traditional “big three”. In 2010, 27.9% of Australian beef shipments were sent to markets other than the “big three”, or 257,000 tonnes swt. This compares to 22% and 24% in 2009 and 2008, respectively. In 2004, immediately following the bans on imports of US beef due to BSE, only 8.5% of exports (77,000 tonnes swt) were sent to markets outside of the “big three”.

**Table 2 Australian exports of beef and veal ('000 tonnes swt)**

To:	2006	2007	2008	2009	2010	% change	2011 <sup>f</sup>	% change <sup>f</sup>
Japan	405.8	377.9	364.3	356.6	356.2	0%	355	0%
US	295.3	295.9	234.8	251.5	185.0	-26%	200	8%
Korea	149.7	148.9	127.2	115.5	124.1	7%	120	-3%
Canada	9.6	12.3	8.5	12.3	6.9	-44%	8	15%
Taiwan	28.6	29.1	27.1	31.3	30.8	-1%	32	4%
South-East Asia	20.7	40.6	62.8	85.9	88.8	3%	93.5	5%
- Indonesia	12.2	26.8	33.0	51.8	48.4	-7%	55.0	14%
- Philippines	1.9	3.4	14.1	17.0	19.2	13%	18.5	-4%
- Singapore	3.2	5.5	8.1	7.5	7.6	2%	7.0	-8%
- Malaysia	2.0	3.3	6.2	8.0	11.7	46%	11.0	-6%
- Thailand	1.4	1.5	1.4	1.6	1.8	15%	2.0	9%
Other Asia	2.6	4.5	5.9	12.8	12.6	-1%	13.0	3%
- Hong Kong	1.8	2.4	3.2	7.5	7.0	-6%	7.0	-1%
- China	0.8	2.1	2.7	5.3	5.6	6%	6.0	7%
E Europe & CIS	12.5	5.1	73.0	15.2	56.7	273%	70.0	24%
EU	8.5	6.0	11.9	9.2	9.8	7%	11.0	12%
Middle East	3.3	4.3	13.0	15.8	24.3	54%	30.0	24%
Other	17.4	16.8	29.0	21.3	27.5	29%	20.5	-25%
<b>Total</b>	<b>953.9</b>	<b>941.4</b>	<b>957.5</b>	<b>927.3</b>	<b>922.8</b>	<b>0%</b>	<b>953.0</b>	<b>3%</b>

Source: DAFF, MLA forecasts

Main countries in other = PNG, South Africa, Central and South America

Eastern Europe & CIS includes Poland

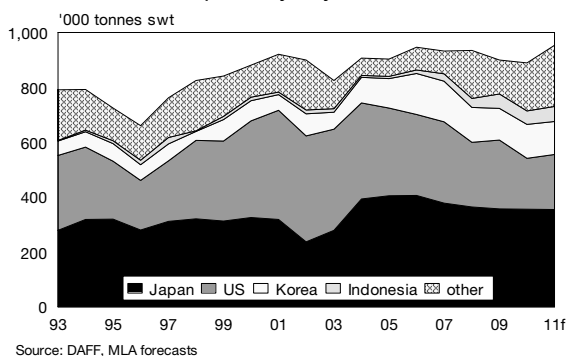
<sup>f</sup> = forecasts (indicated in italics)

# Beef and veal

Contributing to the growth to other markets in 2010 was South East Asia (88,800 tonnes swt), Russia (56,700 tonnes swt) and the Middle East (24,300 tonnes swt)

For 2011, Australian beef and veal exports are forecast to increase 3% year-on-year, to 953,000 tonnes swt – just below the record 957,500 tonnes swt registered in 2008. While Japan, the US and Korea will still be the core markets for Australian beef, three quarters of the growth in shipments for the year will again come from other markets, namely Russia, Indonesia and the Middle East.

**Figure 16**  
Australian beef exports by key destinations



However, 2011 will continue to hold many challenges for the Australian export industry, with the very high A\$ clearly the main issue, along with lingering demand issues in Japan and the US and the unknown trade impact of FMD in Korea.

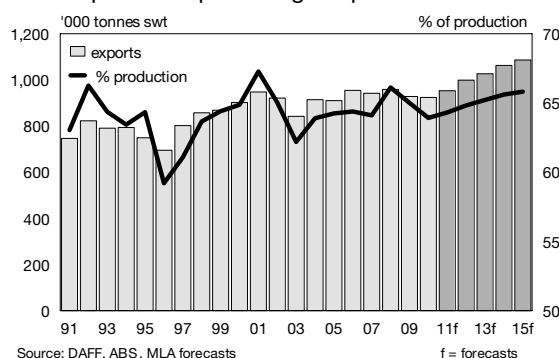
Additionally, increasing competition from the US in Korea and Japan has the potential to adversely impact exports. The contrast between the strong A\$ and very weak US dollar will continue to help the prices competitiveness and demand for US beef in both markets, along with continued promotions.

There are also several positive factors that will help boost exports in 2011. Tight beef supplies and rising prices from traditional South American exporters will continue to see many markets looking to Australia for extra beef, including Russia, the Middle East and South East Asia. Additionally, while exports have fallen sharply in previous years, the

supply fundamentals to the US market seem likely to turn in favour of extra beef imports, including a falling cattle herd, historically low beef supplies and rising corn prices.

Overall, 2011 has the potential to be a good year for Australian beef shipments, provided export prices are high enough to offset the influence of the A\$. With many of the factors that underpin the increase in exports for 2011 expected to be sustained in 2012 and beyond, combined with a rising herd and beef production, Australian beef exports are forecast to fall just short of 1 million tonnes in 2012, and expand to 1.09 million tonnes swt by 2015, 18% higher than in 2010.

**Figure 17**  
Beef exports and percentage of production

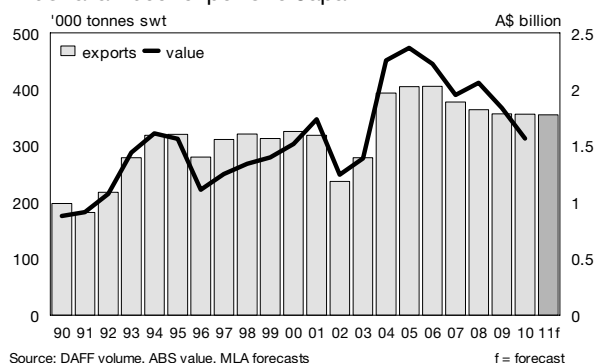


Indeed, over the medium to long term, market access for Australian beef should improve (provided no new disease or food safety issues arise), while global demand for beef is anticipated to grow – pointing to a bright outlook for Australian beef exports.

## 8.1 Japan

2010 was another challenging export year to Japan, with domestic economic concerns, increased competition from the US, currency issues and supply problems throughout the year. However, the end result for Australian beef to Japan in 2010 was almost no change in exports on the previous year, at 356,200 tonnes swt – 38.6% of all Australian beef shipments in 2010. However, the impact was felt in values, with overall export value down an estimated 8%.

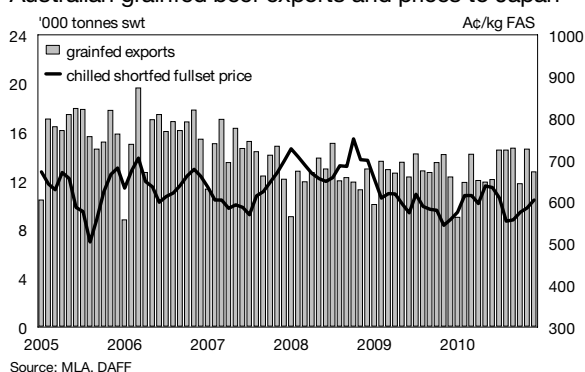
**Figure 18**  
Australian beef exports to Japan



Australian beef and veal exports to Japan have hovered around 356,000 tonnes swt for the past two years, but below the record 405,800 tonnes swt in 2006. Given the very tough economic conditions for Japan throughout 2009 and 2010, along with renewed competition from the US, Australian beef exports for the past two years to Japan have largely exceeded expectations, while export returns from the market have declined.

There was also only a minor change in the mix of grassfed and grainfed beef to Japan in 2010. Grassfed beef exports totalled 210,850 tonnes swt, up 0.2% year-on-year, while grainfed exports slipped 0.5%, to 154,362 tonnes swt. However, when separated into chilled and frozen shipments, both grassfed and grainfed chilled beef exports declined on 2009, falling 6% and 9%, respectively. The demand for frozen beef offset the decline in chilled, with frozen grassfed exports increasing 3% and frozen grainfed exports jumping 22%.

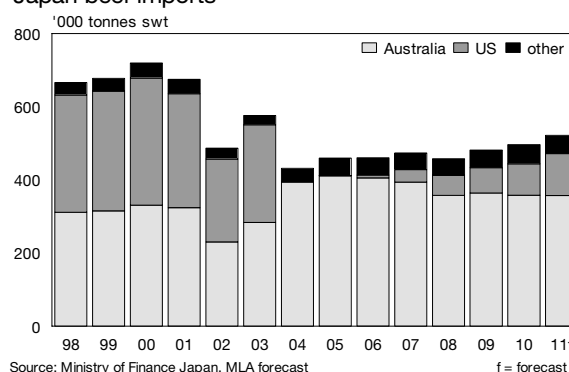
**Figure 19**  
Australian grainfed beef exports and prices to Japan



This is probably in part a reflection of the added competition from the US in the chilled segment, but continued growth in the frozen manufacturing beef for hamburger outlets (30% of the trade).

While Australian beef and veal exports to Japan have remained steady over recent years, imports from the US have increased. According to figures released by the *Ministry of Finance Japan*, imported beef volumes for 2010 were up 4% year-on-year, to 499,531 tonnes swt – the highest total since 2003. However, total imports are still well below the pre 2001 levels (675,000 tonnes swt), when the discovery of BSE in the Japanese cattle herd decreased beef consumption.

**Figure 20**  
Japan beef imports



Of the 4% increase in imports during 2010, frozen beef shipments jumped 7%, while chilled declined 1%. This change reflects the overall state of the Japanese imported beef market, with frozen beef in strong demand, given its usage across the foodservice sector, especially fast food of hamburgers and gyudon. In contrast, demand for chilled beef, normally more expensive, was subdued again in 2010, as retail sales remain slow and consumers continue to prefer cheaper foodservice outlets to restaurants and fine dining.

Most of the growth in imports during 2010 was from the US, with imports up 32% on the same period in 2009, to 91,618 tonnes swt. After regaining access to the market in 2005, US beef imports have increased steadily, but are still constrained by the

# Beef and veal

age requirement on beef from cattle less than 21 months of age. Assisted by a weak US dollar, US beef exports in 2011 are expected to exceed 115,000 tonnes swt.

Other supplying nations also reported increased shipments in 2010, with imports from Canada up 52% year-on-year, to 12,926 tonnes swt, and from New Zealand 7%, to 31,584 tonnes swt.

While the growth in imports of US beef continues to erode Australia's share of the import market, volumes are still well below pre-BSE levels. In 2003, prior to the BSE ban on US beef, imports of US beef totalled 267,300 tonnes swt, while in 2000, 348,300 tonnes swt of US beef entered Japan.

Indicative export beef prices to the Japanese market increased significantly for 2010, when measured in US¢/lb CIF, averaging 5-25% above the previous year. However, converted to A\$/kg terms FAS, the return from the market was somewhat eroded, with most indicative prices only averaging 0-7% above 2009 levels, while full frozen brisket prices declined 7%.

Little change is expected in the overall health of the Japanese market in 2011, with a sluggish economy, increased US competition and a high A\$ continuing to challenge Australian exporters. Therefore, despite increased supplies, Australian beef and veal exports to Japan are projected to show little change, at 355,000 tonnes swt.

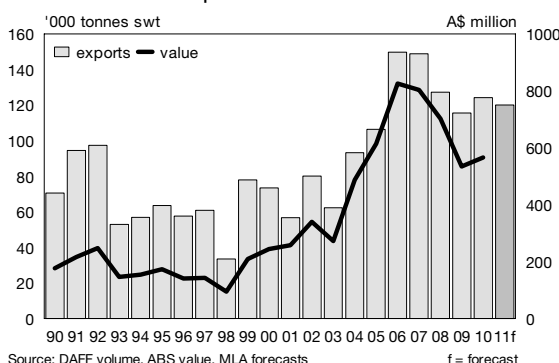
The increase in imports of US beef is expected to be the main driver of a small increase in total beef consumption in 2011, at 1.1%. For 2010, Japanese beef consumption is estimated to have increased 2.8%, largely due to the influence of the US, at 866,000 tonnes. At its peak in 1998-2000 (prior to BSE in Japan, the US and Canada), annual beef consumption was calculated to exceed 1 million tonnes, with both Australian and US beef imports exceeding 310,000 tonnes swt.

Beyond 2011, the prospect for the Japanese beef market largely hinges upon entry requirement for US beef and the health of the economy. A potential Free Trade Agreement (FTA) between Australia and Japan over the medium term probably provides the best chance for significant growth in demand for Australian beef to this market.

## 8.2 Korea

Korea was a standout market in 2010, as imported beef demand gathered pace, driving both Australian and US imports higher. After initial forecasts that Australian beef exports to the market would decline, total shipments actually increased 7% year-on-year, to 124,100 tonne swt.

**Figure 21**  
Australian beef exports to Korea



Increased competition from the US, assisted by a very weak US dollar contributed to concerns for Australian beef exports to Korea in 2010. However, these factors were more than offset by strong consumer demand throughout the year, especially for imported beef, as consumer spending grew and domestic slaughter tracked at historically low levels.

Total Korean beef consumption in 2010 is estimated to have risen 6% year-on-year, which follows increases of 5.8% in 2009 and 4.5% in 2008. While slowing after a robust 2010, total consumption is expected to increase 3.2% in 2011, with imported beef again driving the growth.

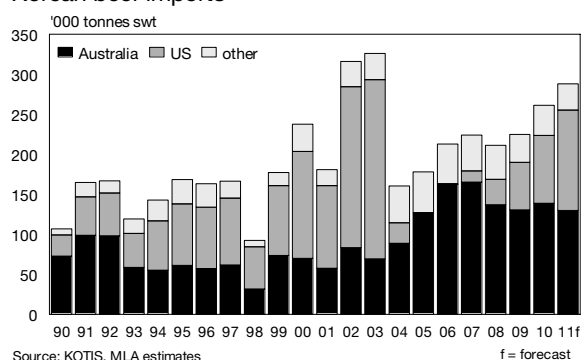
Adding to the strong demand for imported beef in 2010 was the emerging foot-and mouth-disease (FMD) crisis across Korea. By late January 2011, an estimated 2 million head of animals had been

culled, including 150,000 head of cattle, or close to 5% of the national herd. While the impact of the FMD crisis on consumer demand for beef had been limited, by January 2011, both wholesale pork and beef prices had registered considerable increases.

With the fall in Korean cattle numbers, and depletion of market ready cattle, demand for imported beef is expected to remain strong into 2011. After sitting at around 48-50% of beef consumption in 2008 and 2009, Korean beef production is estimated to make up 45% of consumption in 2010.

In 2010, Korean beef imports increased 16% year-on-year, to 261,150 tonnes swt – the third highest volume on record behind 2003 (325,900 tonnes) and 2002 (316,000 tonnes). According to imported beef data released by the Korean International Trade Association (KITA), Australian beef captured 53% of the imported beef market share, followed by the US (32%) and New Zealand (13%). However, the big move for the year was the 43% jump in imports from the US, to 84,823 tonnes swt, compared to 6% and 5% for Australia and New Zealand, respectively.

**Figure 22**  
Korean beef imports



In 2010, of the 124,100 tonnes swt of Australian beef exported to Korea, chilled beef made up 27%, at a record 33,700 tonnes swt. Frozen beef imports were up 5% year-on-year, to 90,448 tonnes swt – but still well below the record 122,000 tonnes swt exported in 2006. Grainfed beef continued to expand throughout 2010, hitting 34,150 tonnes swt – up 26% year-on-year, while grassfed exports reached 89,000 tonnes swt.

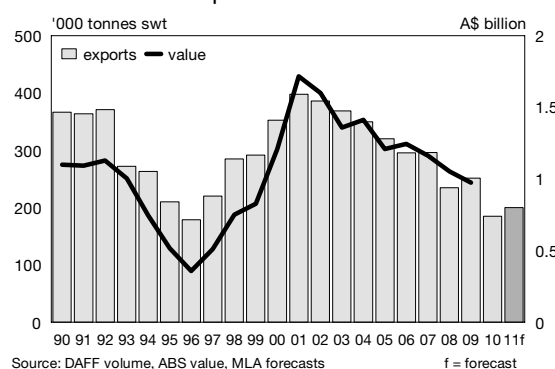
For 2011, Australian beef and veal exports to Korea are forecast to contract 3%, to 120,000 tonnes swt. The decline for the year is largely due to the influence that increased, and most likely cheaper, US beef imports will have upon the market.

## 8.3 United States

2010 proved to be a very mixed year for the US market. Economic conditions remained tenuous, unemployment high and consumer demand sluggish. However, beef market conditions had improved by the end of the year, although the ability of the consumer to pay higher prices for beef remained a major cloud upon the outlook for the market.

Australian beef and veal exports to the US in 2010 contracted significantly, even with imported beef prices averaging much higher throughout the year. Shipments for the year totalled 185,000 tonnes swt, down 26% year-on-year and the second lowest calendar year total since the mid-1960s.

**Figure 23**  
Australian beef exports to US



Numerous factors contributed to the sharp decline in exports for 2010, with the high and rising A\$, competition from other markets for Australian beef and added technical hurdles to exporting beef to the US major factors.

Also, the Australian production of manufacturing beef declined during 2010, especially for 90CL beef. Of the 66,500 tonne contraction in Australian exports to the US for 2010, manufacturing beef made up 51,371 tonnes swt – or 77% of the reduction.



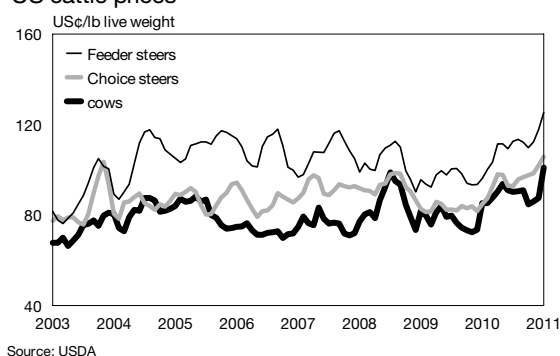
# Beef and veal

The role of the record high A\$, combined with disincentives for shipping to the US market in 2010 saw Australian exporters redirecting product to other markets, such as Japan, Russia, South East Asia and the Middle East. Manufacturing beef exports increased to all these markets in 2010, reducing available supplies for the US.

Another factor contributing to the decline in shipments of Australian beef in 2010 was an unexpected increase in US beef production. According to USDA, US cow slaughter for January to November increased 4% year-on-year, with a 10% jump in beef cow slaughter. Additionally, heifer slaughter for the 11 month was up 3% year-on-year, indicating continued herd contraction in coming years.

Defying the smaller cattle herd, the increase in cow and heifer slaughter throughout the year was partly due to the high prices on offer, with cow prices averaging 14% higher in 2010, at 88.8US¢/lb live weight. The higher prices attracted additional cattle to market, with many producers looking to maintain cash flow during tough economic conditions.

**Figure 24**  
US cattle prices

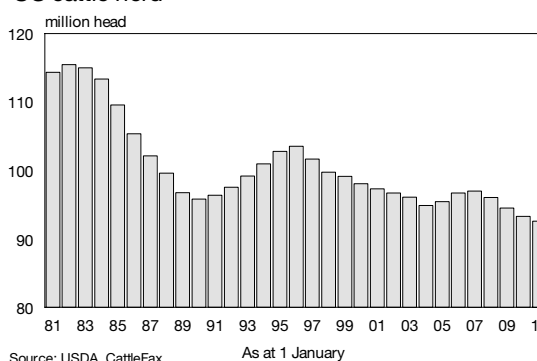


Along with the increase in cow prices throughout 2010, feeder steer and choice steer prices also increased, averaging 13% and 14% higher year-on-year. Underpinning the higher prices was the limited supply of beef on the domestic market, even with production up for the year, as inventories remained at historically low levels and exports surged on the back of the weak US dollar.

US beef production for 2010 is estimated to have been 11.93 million tonnes cwt – up 1.3% on 2010 (USDA). However, with exports jumping an estimated 23% for the same period, to 1.03 million tonnes cwt, total beef domestic disappearance declined 2.5%, to 27kg/head (retail weight).

Given the increased cattle turnoff during 2010, the liquidation of the US cattle herd is expected to continue in 2011. As at 1 January 2011, the US cattle herd stood at 92.6 million head – a decline of 1.4% for the past year and the lowest level since 1958. For the same period US beef cow numbers declined 1.6%, to 30.9 million head, while replacement beef heifers dropped 5.4%, to 5.2 million head. With a smaller decline anticipated in 2012, the US cattle herd isn't anticipated to level out until 2013–2019, at 91 million head.

**Figure 25**  
US cattle herd



For 2011, Australian beef and veal export to the US are forecast to increase 8%, to 200,000 tonnes swt. While still historically low, exports are expected to rise on the back of sustained higher imported beef prices, even with the A\$ assumed to trade around parity.

The latest USDA beef forecasts reveal the tighter beef supply situation facing the US market in 2011, which will flow through to demand for imported beef. US beef production is forecast to decline 2.5% in 2012, while exports are expected to remain steady at just above 1 million tonnes cwt. US beef imports are expected to increase 4.5% in 2011, to 1.1 million tonnes cwt.

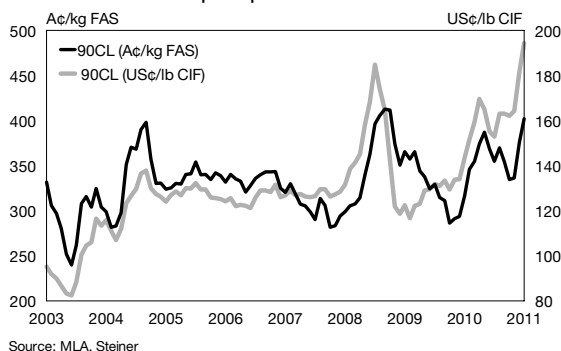


Reflecting the increased demand for imported beef, largely to offset the contraction in US supplies, Australian exported beef prices are forecast to increased 10-15% on the 2010 average in US¢/lb terms (Steiner Consulting Group).

In 2010, indicative 90CL export beef prices averaged 161.3US¢/lb, 26% higher than the previous year and the highest calendar year average on record – a remarkable result given the state of the US economy and consumer demand.

In A\$ terms, 90CL prices averaged 9% higher in 2010, at 356.5A¢/kg FAS.

**Figure 26**  
Australian beef export prices to the US

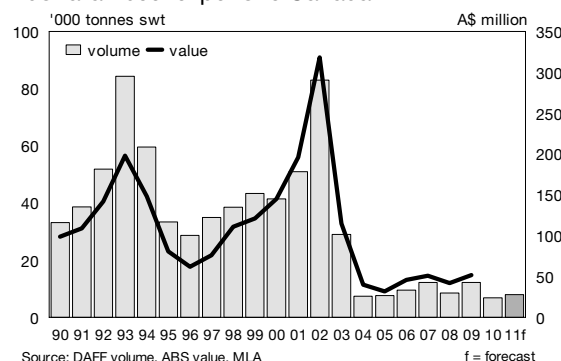


With an eventual recovery in the US economy and demand, projections for further falls in US beef production and an easing in the A\$ over the medium term, demand for imported Australian beef is expected to increase.

However, the volume of Australian beef shipped to the US over the medium term will continue to be constrained by competition from other markets and costly US import requirements.

Australian beef exports to Canada in 2011 are expected to increased 15% year-on-year, to 8,000 tonnes swt – still very low compared to pre-BSE levels.

**Figure 27**  
Australian beef exports to Canada



## 8.4 Indonesia

Australia's beef trade with Indonesia has become a very valuable component in the overall export mix, taking around 5% of total shipment for the past two years. In 2010, Australian beef and veal exports totalled 48,436 tonnes swt, and while exports declined 7% on the previous year, they largely consolidated the rapid growth registered in 2009.

The majority of beef sent to Indonesia in recent years has been manufacturing beef, primarily for the use in traditional bakso balls (meat balls). Strong consumer demand, combined with limited domestic supplies, has underpinned the demand for imported beef. Comparatively strong returns for Australian shipments have enabled the Indonesian market to attracted beef that would have gone to the US in previously years.

In 2010, Indonesia was Australia's fifth largest export market by volume, but the third largest market for manufacturing beef, behind the US and Japan. At 19,597 tonnes swt in 2010, manufacturing beef made up 40% of total exports to the market, followed by blade (9.8%), silverside (9.6%), thick flank/knuckle (9.4%) and shin/shank (7.9%).

Contributing to the 7% decline in exports to Indonesia during 2010 was temporary restrictions placed on beef import licences to assist the local industry.

# Beef and veal

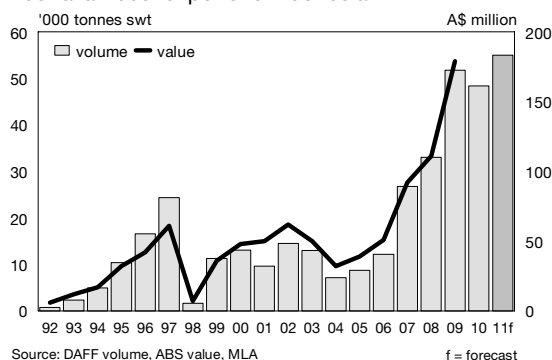
There was also increased competition from NZ beef. In 2010 (January to November), Australia's share of Indonesia's imported beef market declined to 52%, from 69% in 2009. In contrast, New Zealand's market share jumped from 30% in 2009, to 42% in 2010.

While the fundamentals of the market point to stronger demand for imported Australian beef in 2011, the level of competition for limited supplies will impact the end result.

With demand, and indeed price, for manufacturing beef expected to increase in 2011, Indonesia's ability to compete with the likes of the US and Russia for Australian beef will largely determine volumes in 2011.

However, taking into the consideration the influence of the competition for Australian manufacturing beef in 2011, Indonesia is still expected to attract increased shipments of Australian beef, providing customs entries are not restricted. For 2011, Australian beef and veal exports to Indonesia are expected to reach 55,000 tonnes swt – up 14% on the previous year.

**Figure 28**  
Australian beef exports to Indonesia



Given the overall size and continued growth in the population, rising incomes and positive economic outlook, imported beef demand in Indonesia is expected to grow throughout the medium and long term. However, Australian beef exports to this market will be heavily influenced by government import policies.

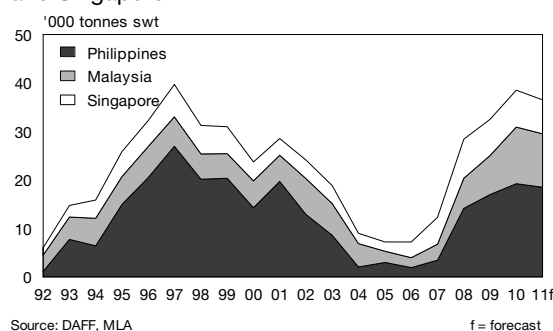
The potential volume of Australian beef to the market over the long term will also hinge upon competition from other suppliers, including New Zealand, and potentially Brazil or Indian buffalo meat if access conditions change.

## 8.5 Other South East Asia

Australian beef and veal exports to other South East Asia markets, excluding Indonesia, reached 40,400 tonnes swt in 2010 – surpassing the previous record of 34,100 tonnes swt set in 2009. Exports rose to all these markets, with shipments to the Philippines rising 13% year-on-year, to 19,200 tonnes swt, Malaysia jumped 46%, to 11,700 tonnes swt, while Singapore (7,600 tonnes swt) and Thailand (1,800 tonnes swt) registered increases of 2% and 15%, respectively.

For 2011, exports to other South East Asian markets are forecast to be 38,500 tonnes swt, down 5%. The Philippines will continue to be the main market of the four, with exports forecast to be around 18,500 tonnes swt – down 4% on 2010. Exports to Malaysia are expected to slip 6% year-on-year, to 11,000 tonnes swt, while shipments to Singapore are forecast to decline 8%, to 7,000 tonnes swt. Exports to Thailand are forecast to hit 2,000 tonnes swt in 2011, up 9%.

**Figure 29**  
Australian beef exports to Philippines, Malaysia and Singapore



Balancing the steady growth in demand for beef in most of these Asian markets in 2011 is the expected intense competition for Australian beef, especially for manufacturing beef. To both the Philippines and Malaysia, manufacturing beef is the main cut group shipped, making up 85% and 46%

of Australian shipments, respectively. With demand and shipments of manufacturing beef in 2011 forecast to increase to the US, Russia and Indonesia, the amount of product available for the Philippines and Malaysia will be under significant pressure.

To the Philippines, Australian beef faces competition from almost all major exporting countries. For January to November 2010, Indian beef held the largest imported beef market share, at 42%, followed by Australia (22%), Brazil (14%), NZ (12%) and the US (9%).

Given the price advantage held by Indian beef to the Philippines, and abundant supplies, Australian beef will continue to face strong competition. Additionally, the weak US dollar will continue to assist US beef volumes to the market. However competition from Brazilian beef may continue to ease in 2011, which may assist demand for Australian product.

Like the Philippines, competition in the Malaysian market in 2011 will continue to be dominated by Indian beef, which captured almost 80% of market share in the past year. Australia's share of the imported beef market remained at 10% in 2010 and, with the forecast strong competition for Australian manufacturing beef in 2011, Australia's share of this market is unlikely to expand.

Rising incomes, expanding economies and a dependency upon imported beef are characteristics of all four markets. However, while the fundamentals for all of the South Asian markets into the medium term are encouraging, it will again be the ability of these markets to compete against larger markets which will determine the amount of Australian beef exported.

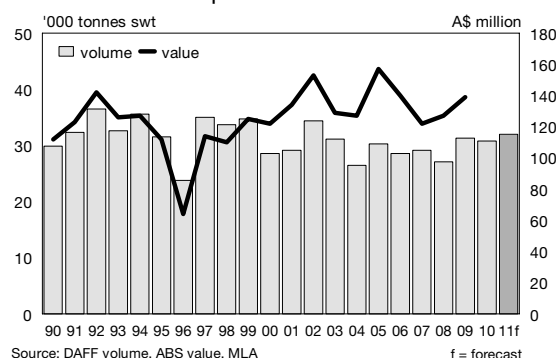
## 8.6 Taiwan

Australian beef and veal exports to Taiwan in 2011 are expected to rise 4%, at 32,000 tonnes swt.

Increased competition from the US will continue to hinder any growth in Australian shipments to the market, even though Taiwan's economic conditions, and demand for beef, remain positive.

**Figure 30**

Australian beef exports to Taiwan



In 2010, Australia's beef exports to Taiwan totalled 30,820 tonnes swt – down 1% from 2009.

Contributing to the minor decline was an 8% fall in frozen beef exports, while chilled shipments jumped 31%, to 2,150 tonnes swt.

The main feature in the Taiwanese imported beef market in 2010 was the jump in volume from the US – assisted by the removal of BSE-related restrictions and a very weak US dollar. For January to September 2010, US beef imports had increased 103% year-on-year, to 21,874 tonnes swt – with 2010 probably finishing as the highest export year on record to Taiwan. With a small increase in product from Canada, total Taiwanese beef imports for January to September had increased 20% year-on-year, to a record 66,367 tonnes swt.

In comparison to the US and Canada, there was a slight decline of 300 tonnes in imports of Australian beef for the nine-month period, at 23,200 tonnes swt. Also reflecting the increased presence of the US in the market, imports of New Zealand beef declined, falling 8% to 15,800 tonnes swt.

While Taiwan will remain a stable and important market for Australian beef, significant growth over the medium term is not anticipated, with increased competition from the US and little underlying demand growth expected.

# Beef and veal

## 8.7 Greater China

Australian beef and veal exports to Greater China (China and Hong Kong) decreased 1% in 2010, to 12,600 tonnes swt, as a 6% decline to Hong Kong (7,000 tonnes swt) was almost offset by a 6% increase to China (5,600 tonnes swt).

For January to November 2010, the US increased its imported beef market share into Hong Kong from 16% to 21%, at the expense of imports from NZ (4%), Brazil (46%), Uruguay (4%) and other markets (19%). A weaker currency assisted US export volumes in 2010 – a factor which is expected to continue in 2011.

Australia was the only other major market to record an increase in import share to Hong Kong for the first 11 months of 2010, up one percentage point on 2009, to 6%.

Underpinned by strong consumer demand and increase demand for imported beef, Australian beef exports to China increased in 2010. However, as a share of the expanded imported beef market in 2010, Australia's position was eroded by Brazil. While Australia's imported market share in China for January to November 2011 stood at 23% (down from 39% in 2009), Brazil's market share jumped from 7% in 2009, to 34% in 2010.

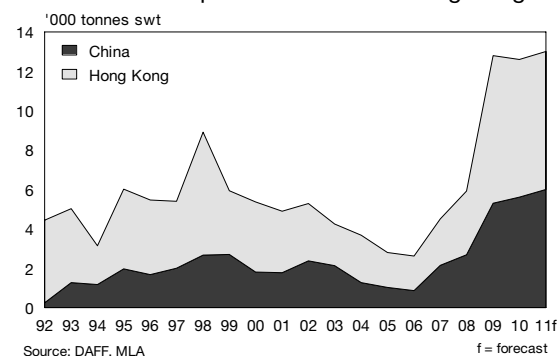
Uruguay and New Zealand also registered a decline in market share for 2010, falling to 32% and 18%, respectively.

In 2011, exports to Greater China are anticipated to increase to 13,000 tonnes swt, up 3% year-on-year. The rise for 2011 is largely a balancing act between increased competition to the market, largely from the US in Hong Kong and Brazil in China, versus the overall increase in demand for imported beef in China.

However, with an increasing demand for imported beef expected over the long term, underpinned by robust economic expansion and rising incomes, China's influence on the global beef market is expected to strengthen.

**Figure 31**

Australian beef exports to China and Hong Kong

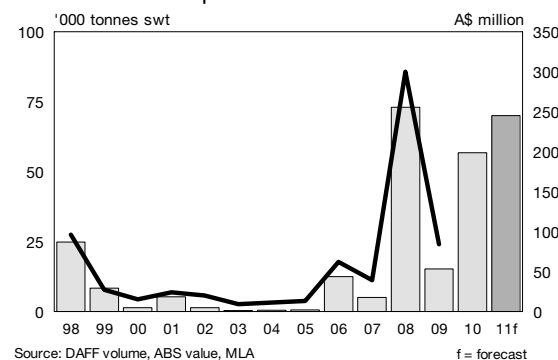


## 8.8 Russia

Out of all the markets that Australia will send beef to in 2011, Russia is expected to be the one market that could have the biggest influence on shipments to other markets. In 2011, Australian beef exports to Russia are forecast to reach 70,000 tonnes swt – up from 56,700 tonnes swt in 2010 and the GFC influenced 15,200 tonnes swt in 2009. Exports for 2011 are anticipated to approach the recent high of 73,000 tonnes swt in 2008.

**Figure 32**

Australian beef exports to Russia



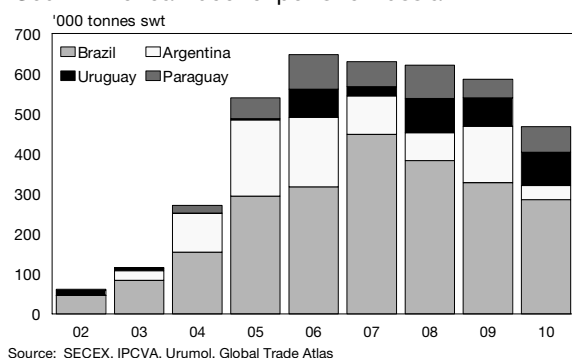
While not traditionally a major market for Australian beef, Russia is one of the world's largest beef importers. The Russian beef market for many years has been one of the main export destinations for Brazilian and Argentinean beef. The rapid decline in the capacity of the Argentine industry in 2009, combined with rising beef prices from Brazil since 2008, has seen Russian buyers looking towards Australia in recent years to supplement beef imports.

While Brazil remained the largest beef exporter to Russia in 2010, exports for the calendar year declined 13% on 2009, to 284,909 tonnes swt. Since peaking in 2007, at 447,997 tonnes swt, Brazilian exports to Russia have declined for past three years.

The 13% decline in 2010 was a combination of reduced supplies, high beef prices and strong demand from the Middle East and domestic market attracting additional product. In 2010, the Middle East surpassed Russia as Brazil's largest beef export market.

Several years of upheaval in the Argentinean cattle industry has slashed exports to Russia – a situation that will continue in 2011, as the industry starts to rebuild herds. For 2010, Argentinean beef exports to Russia declined 75% on 2009 levels, to only 35,679 tonnes swt – a long way from the 189,558 exported in 2005, prior to the government imposed export taxes and restrictions.

**Figure 33**  
South American beef exports to Russia



Along with Paraguay and Uruguay, Australia has benefitted from the decline in exports from Argentina and Brazil to Russia. Together with the 273% increase in 2010 from Australia, exports from Paraguay (49,500 tonnes swt) jumped an estimated 5%, while shipments from Uruguay increased 16%, to 82,605 tonnes swt.

For 2011, little is expected to change for countries that export to Russia, while demand is expected to continue to gather pace. Brazil is anticipated to remain focussed upon increasing volumes to the

Middle East, while a robust domestic market is forecast to attract attention. Argentinean production is expected to fall another 6% in 2011, following an estimated 25% decline in 2010.

Reflecting the tight supply, reduced global competition from Brazil, Argentina and Uruguay and currency shifts, export prices (as measured by unit values) to Russia increased significantly in 2010, further impacting export volumes. In 2010, the average unit value of Brazilian beef exports to Russia increased 29%, while Argentinean and Uruguayan prices jumped 41% and 37%, respectively.

Given the reduced supplies of beef from traditional suppliers, Russian demand for Australian product has increased substantially. However, the surge in Australian beef to Russia in 2008, and again in 2010, has impacted volumes to other markets, as Australian exporters divert product.

As occurred in 2008, the main impact of the 273% year-on-year increase in shipments to Russia in 2010 was felt in exports to the US. Additionally, the attractiveness of shipping to the US, compared to Russia, was reduced by the high A\$, more onerous US import regulations and lower US domestic beef prices.

The impact of robust Russian demand upon Australian beef exports was significant in 2010, with the situation most likely to improve further in 2011. Indeed, the increase in Australian exports for 2011, to 70,000 tonnes swt, is based upon the combination of ongoing reduced shipments from traditional suppliers and increasing Russian beef demand.

While the rising beef import demand is likely to continue in the medium and long term, competition from Brazil and Argentina could recover, once herd and production growth resumes.

# Beef and veal

## 8.9 EU

Australian beef and veal exports to the EU in 2010 totalled 9,800 tonnes swt – up 7% on the previous year, as volumes were boosted slightly by access to the new EU grainfed beef quota. Offsetting the influence of the increased access for Australian beef, was the strong A\$ against the euro and the very sluggish EU economy and consumer demand.

For 2010, the A\$ averaged 22% higher against the euro, as the robust Australian economy was in stark contrast to the EU situation, as several member nations continued to have massive debt issues. Indeed, much of the rise in the A\$ was due to the weakness of the euro.

The additional 20,000 tonne quota, for high-quality grainfed beef, has provided extra scope for an increase in shipments for 2011. Historically, Australian beef exports to the EU have been constrained to the 7,150 tonne Australia specific “Hilton” high quality beef quota, with some additional product entering under the lower priced, competitive GATT quota.

For 2011, Australian beef and veal exports to the EU are forecast to increase 12% on 2010, to 11,000 tonnes swt, as exporters again fill the 7,150 ‘Hilton’ quota and capture more of the additional grainfed beef quota. A slow recovery in the EU economic landscape should also help demand and prices, although Australian beef is still restricted to a very small portion of the massive EU beef market.

Beyond 2011, scope exists for a further increase in Australian beef exports to the EU, with the EU grainfed quota increasing to 48,500 tonnes annually from 2012-13.

## 8.10 Middle East

While a traditional market for Australian lamb, mutton and live sheep, the Middle East was also one of Australia’s fastest growing beef export markets in 2010. For the past year, exports to the region increased 54% on the previous year, to a record 24,300 tonnes swt.

For 2010, the majority of the increase in beef exports to the region was to the United Arab Emirates (UAE), Egypt, Saudi Arabia, Jordan, Lebanon, Kuwait and Qatar.

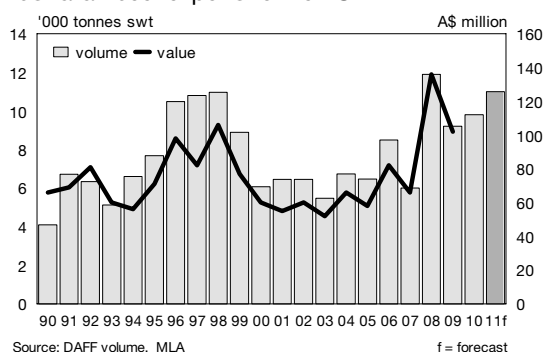
Robust growth across the foodservice sector contributed to the rise in volumes, with expansion in both the numbers of outlets and sales. Reportedly, the number of foodservice outlets across the region increased by 6% in 2010, while total sales rose 10%.

Underlining the growth in the Middle East beef market in 2010 was the surge in product from Brazil. For January to November, Brazilian beef exports to the Middle East jumped 49% year-on-year, to just below 300,000 tonnes swt – establishing it as Brazil’s largest beef market in 2010, surpassing Russia. Within the Middle East, Iran and Egypt were the main markets for Brazilian beef, although growth was reported to most markets.

Given the robust economic outlook, expanding population and limited self-sufficiency, the Middle East is expected to become an increasingly important player in the global beef trade over the medium and long-term. Additionally, with sheep meat supplies globally expected to remain tight, beef and chicken are expected to fight to fulfil the growth in demand for protein.

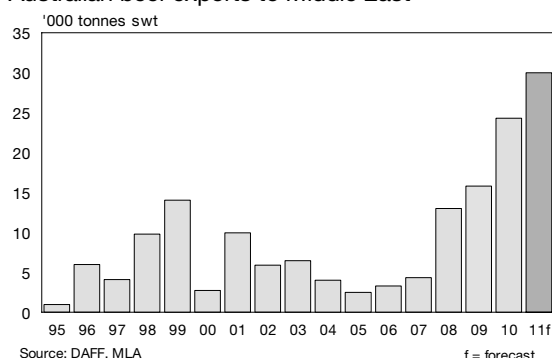
**Figure 34**

Australian beef exports to the EU





**Figure 35**  
Australian beef exports to Middle East

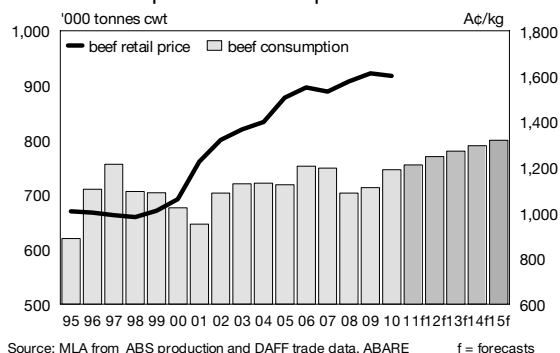


In 2011, Australian beef and veal exports to the Middle East are expected to increase 24%, to 30,000 tonnes swt.

## 9. Domestic Market

Underpinned by strong consumer demand and assisted by subdued export competition, and a consequent fall in prices relative to lamb and food generally, beef utilisation in Australia is estimated to have increased 4.7% in 2010, to 746,000 tonnes cwt.

**Figure 36**  
Beef consumption and retail price



After the strong rise in 2010, domestic beef utilisation is forecast to grow only 1.2% in 2011, to 755,000 tonnes cwt – facilitated by the 2.5% increase in production.

Reflecting the strong Australian economy and sluggish export conditions throughout the much of 2009 and the first half of 2010, domestic beef utilisation appeared to have reached a peak in mid 2010. During the second half of 2010, utilisation eased gradually, as export volumes gathered pace.

Interestingly, while the amount of beef on the domestic market during the second half of 2010 declined an estimated 2%, average retail prices also fell. According to the Australian Bureau of Statistics (ABS), average retail beef prices declined 2.5% year-on-year during the final quarter of the year, falling to their lowest quarterly level since December 2007.

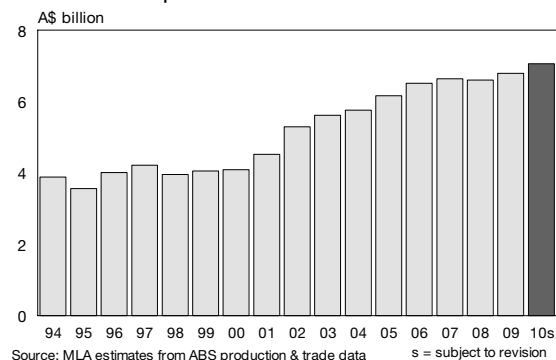
The decline in the average national retail beef price during the final three months of 2010 could have been due to several factors, but certainly not to falling cattle prices. Between October and December 2010, average national trade steer prices increased 4%, and averaged 21% above the corresponding period in 2009, while retail prices averaged 2% lower year-on-year.

One of the most likely reasons for the fall in average retail beef prices during the final quarter of 2010 was fierce price cutting by some of the major retailers.

Following the unexpected 2.5% year-on-year decline in prices during the final quarter, 2010 retail beef prices averaged \$16.02/kg – down 0.7% from the previous year. Partially offsetting the fall in prices during the December quarter was a 1.1% year-on-year rise in the third quarter of the year.

With the 4.7% increase in total utilisation more than offsetting the 0.7% decline in average retail prices, total market expenditure for the past calendar year is estimated to have increased 4%, to A\$7.06 billion.

**Figure 37**  
Consumer expenditure on beef





## Beef and veal

With a forecast 1% rise in total utilisation and anticipated rise in retail beef prices, total expenditure for 2011 is forecast to rise, but again with little change in real terms. Indeed, it is expected that retail beef prices will come under increasing upwards pressure throughout 2011, from both higher average cattle prices and stronger export demand and prices – even with the A\$ trading around parity.

Australian consumer confidence was resilient during 2010. During the 11 months to November, the Australian consumer confidence index (according to Roy Morgan) averaged around 124.5 points, with an increased proportion of Australians expecting the country to have a ‘good time’ economically, both in the short and long term. The confident outlook from consumers is expected to assist demand for beef throughout 2011.

An estimated 36% of Australian beef production was used on the domestic market over the calendar year to November 2010. Of this, MLA estimates about 68% of was sold through retail outlets, while 27% was served in the foodservice sector and 5% used in processing. Of total beef and veal sold through retail during the 11 months to November 2010, the proportional share for supermarkets (including Woolworths, Coles, IGA/Foodland and Aldi) eased slightly to 64%, compared with 65% during January to November 2009.

Butcher sales during 2010 were reportedly steady for beef, pork and chicken, but lower for lamb, according to MLA’s butcher survey conducted by Millward Brown. The majority of butchers also continued to indicate ‘very good to excellent’ satisfaction with the quality of meat during 2010. Of the 1,301 butchers surveyed in 2010, about 51% noted ‘very good to excellent sales’ of beef, compared with 53% during 2009.

The Roy Morgan data on Australian weekly household consumption of fresh meat suggested an increase in the total number of serves during the calendar year to November 2010.

The year-on-year rise was partly attributed to the increase in beef servings, as strong demand and the high A\$ resulted in more beef targeting at the domestic market.

Beef continued to be the most consumed fresh meat in Australia during the calendar year to November 2010. The Roy Morgan Meat purchasing report revealed that the share of total weekly fresh meat purchase for beef was 39%, followed by chicken (29%), lamb (17%) and pork (12%).

The Australian foodservice market reported steady growth throughout 2010, although it slowed towards the end of the year. Factors contributing to the growth include the return to buoyancy in household incomes and assets, historically low interest rates, healthy employment levels, government stimulus spending and the stabilisation of financial markets – adding up to a return to historically high consumer confidence.

There is evidence that the superior performance of fast food chains during the Global Financial Crisis (GFC) has faded and consumers have been gradually returning to high priced outlets, such as hotels and restaurants. Although the market is in an ‘above trend’ growth mode, month to month volatility means the market remains vulnerable to fragile consumer confidence and rising interest rates.

It is evident from the November survey results that consumers are now moving back up the dining ladder, from value outlets to higher priced ones, showing some improvements in demand in restaurants, as well as hotels/motels, and a commensurate deceleration in fast food chains. This trend began in early 2010 and will endure into 2011, subject to continued robust economic growth.

Given the positive outlook for global beef demand, constrained global supplies and an expected depreciation in the A\$, it is likely to be more difficult for the domestic market to attract increased volumes of beef over the medium and long term.

Taking the robust outlook for global beef demand into consideration, along with the rising beef and veal production through to 2015, total beef utilisation is expected to increase by a modest 10,000 tonnes cwt per year, or 7% between 2010 and 2015. This would imply a minor decline of 3.3% in beef consumption per person, to 32.3kg/head.

However, the importance of the domestic market cannot be understated, even with the forecast pressure on supplies from export markets over the medium to long term. With no market access barriers or currency volatility, the domestic market will remain the single largest, most stable, reliable and valuable market for Australian beef. Indeed, a growing population and strong economic conditions will continue to see strong demand for beef in the domestic market.

**Table 3 Beef tariffs/quotas – 2011**

Market	Tariff/Quota
Canada	35,000 tonne quota + above quota tariff of 26.5%
China	12-25%
European Union	7,150 tonne HQB quota. Above quota tariff 12.8% + €3/kg. Access to 20,000 tonne grainfed quota (0% tariff)
Japan	38.5%. Special safeguard (snapback) of 50%
Korea	40%
Mexico	20-25%
Russia	Access under 428,300 tonne frozen quota (15% tariff). Above quota tariff of 50%
Taiwan	NT10/kg
Thailand	24% (was 50%) reducing to 0% by 2020 under TAFTA
United States	408,214 tonne quota (0% tariff). Above quota tariff of 26.4% (reducing to 0% under AUSFTA)

Source: MLA

## Box 1 Brazilian beef production and exports

As the world's second largest beef producer and the largest exporter, ahead of Australia, developments in Brazilian production and trade will have a significant impact on prospects for the Australian beef industry and trade in 2011 and beyond.

Brazilian beef shipments in 2011 are again expected to be shaped by constrained beef production, a strong currency, robust demand from the domestic, Russia and Middle East markets and high offer prices. Indeed, the amount of beef directed onto their own domestic market in 2011, with approximately 200 million people, will have significant impact on available supplies for export in both 2011 and over the medium and long term.

In 2010, Brazilian beef exports totalled 951,255 tonnes swt – up 3% year-on-year, but well below the record 1.285 million tonnes swt exported in 2007. Showing the impact of the domestic market, in 2007 a record 28.2% of total production was exported, but by 2009 and 2010, this percentage declined to 21.2% and an estimated 21.9%, respectively.

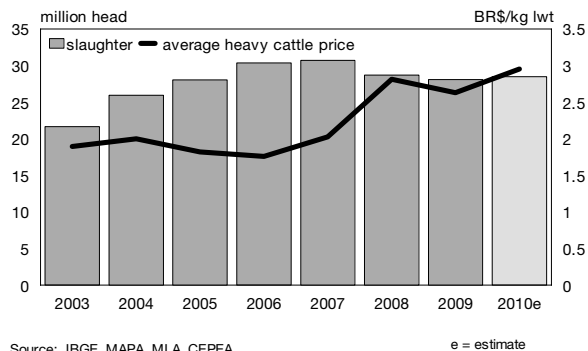
The Middle East overtook Russia as Brazil's largest export destination in 2010, increasing 47% year-on-year, to 405,550 tonnes swt. Iran was the main contributor to the rise in exports to the region, surging 115% on 2009, to 191,181 tonnes swt, while exports to Egypt jumped 57%, to 113,228 tonnes swt.

Brazilian beef exports to Russia in 2010 declined 13% year-on-year, to 284,909 tonnes swt – almost 164,000 tonnes less than in 2007. Exports to the EU remained heavily restricted in 2010, totalling 44,198 tonnes swt - the result of strict traceability requirements.

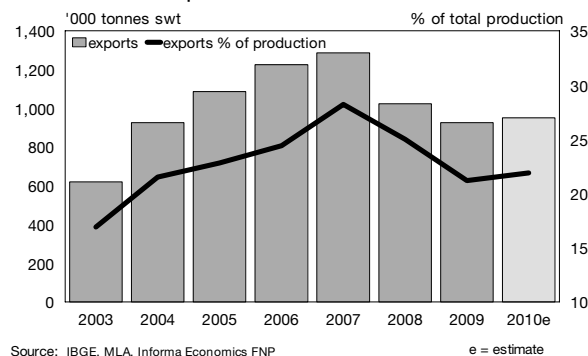
Brazilian cattle prices are expected to remain high throughout 2011, underpinned by the continuation of steady production and rising domestic and export demand. Although Brazilian cattle slaughter was estimated to have increased between 1-2% in 2010, surging demand, both from the domestic market and export markets, pushed prices higher.

Local analysts expect that higher cattle supplies, the result of increased calf production since 2007, will begin to hit the market in late 2011 or early 2012. However, the relatively stronger local and overseas demand will limit any impact on global prices from an increase in supply (Informa Economics FNP).

**Figure 38**  
Brazilian cattle slaughter



**Figure 39**  
Brazilian beef exports



## Section 2 – Live cattle exports



### 1 Live Cattle

The past year proved to be a mixed one for Australia's live cattle industry, with the restrictions and uncertainty surrounding the Indonesian market offset by surprising growth into the Middle East (including Turkey). Australian live cattle exports are estimated to have been around 873,573 head in 2010 – a 8% decline on the 954,143 head shipped in 2009.

For 2011, Australian live cattle exports are forecast to increase 1% year-on-year, to 880,000 head. Given the dominant share that Indonesia has for Australian cattle shipments, the reduced volumes forecast into the market for 2011 will limit overall growth. However, much of the decline in exports to Indonesia in 2011 should be offset by a further rise in exports to the Middle East, including Israel, Libya, Egypt and Turkey.

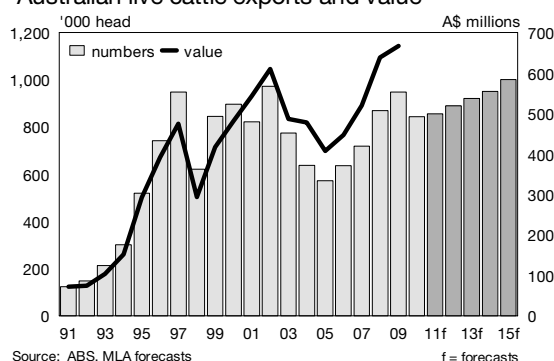
The Indonesian Government has been concerned about the decline in local cattle production for some time and has set a new goal of self sufficiency in beef supply by 2014. In an attempt to politically and publically demonstrate their commitment to beef self sufficiency targets, the Indonesian Government, from early June 2010 began implementing a series of measures to increase the local production of cattle and reduce reliance on imports. For the live cattle trade these restrictions have come in the form of weight restrictions on cattle and reduced import permits.

From 1 June 2010, all import permits issued specifically stated that cattle must be less than 350kg liveweight. This has seen the average weight of live cattle consignments to Indonesia drop from approximately 350kg to between 290-320kg liveweight. This has also seen the price of lighter cattle eligible for the Indonesian trade increase by 10-15%.

In July 2010 the Director General of the Directorate of Livestock Services (DGLS) issued a circular to Indonesian cattle importers notifying them that, in line with self sufficiency goals, import permits would only be issued for 452,000 cattle in 2010. The reduction in import permits saw a shortage of cattle in feedlots available for peak sales during the Ramadan period. This led to an increase in the price of local cattle and beef sold in wet markets.

**Figure 40**

Australian live cattle exports and value



**Table 4 Australian live cattle exports (head)**

	2006	2007	2008	2009	2010	% change	2011 <sup>f</sup>	% change <sup>f</sup>
To:								
Indonesia	386,566	516,992	650,161	772,868	520,987	-33%	500,000	-4%
China	9,879	8,785	12,767	32,798	57,552	75%	60,000	4%
Philippines	13,159	20,354	10,791	12,860	16,244	26%	15,000	-8%
Malaysia	56,484	35,018	20,263	13,651	17,084	25%	15,000	-12%
Japan	21,944	21,083	19,770	16,039	15,041	-6%	18,000	20%
Middle East/Africa	117,014	72,270	112,788	96,839	225,547	133%	240,000	6%
Others	30,333	44,980	41,970	9,088	21,118	132%	32,000	52%
<b>Total</b>	<b>635,379</b>	<b>719,482</b>	<b>868,510</b>	<b>954,143</b>	<b>873,573</b>	<b>-8%</b>	<b>880,000</b>	<b>1%</b>

Source: ABS, MLA forecasts

Main countries in other = Brunei, Mexico & Russia

f = forecasts (indicated in italics)

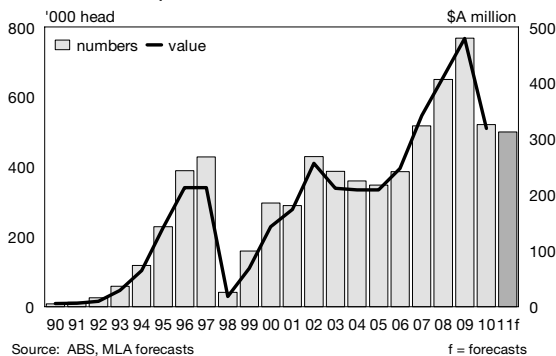
# Live cattle

Following Ramadan the permit allocations were reviewed based on feedlot capacity and forecast demand requirements. However, delays in the issuance of permits and limited validity of permits created further disruptions to the trade and caused exports to drop significantly in the last quarter.

Cattle weight restrictions and ongoing uncertainty about the level of import permits into Indonesia will persist for the foreseeable future, causing ongoing market disruption to live cattle imports and cattle markets in northern Australia.

**Figure 41**

Live cattle exports and value to Indonesia



It has been reported that the Indonesian government will limit import permits for Australian cattle to 500,000 head in 2011. This would be a further 4% reduction in total numbers, following the estimated 33% decline in 2010.

Additionally, the 350kg live weight limit for cattle to the market has served to reduce available supplies. The imposition of the 350kg weight limit created significant issues for many northern Australian producers in 2010, especially those who experienced a poorer 2009-10 wet season and were forced to look for alternative markets for heavy cattle. Throughout the first half of 2010, there were several reports of heavy cows being transported to southern meat processors, which in previous years would have gone onto boats.

However, for other regions which received a good wet season, such as Queensland, ample feed and water supplies enabled them to have more flexibility with heavy cattle.

Many producers reportedly opted to carrying them for another year and try to get another calf out of the cow, making the most of the better season.

For 2011, the excellent season with abundant grass, will only serve to make the weight limit to the market harder to contain, with many cattle that may have traditionally been an option for the live trade to Indonesia being too heavy. Furthermore, the strong prospects for increased demand and prices in the slaughter and export meat markets may cause additional cattle to be targeted for further finishing on grass, entering the Australian slaughter market at a later stage.

After holding a price advantage to attract supplies throughout 2008 and 2009, the live export sector may face tighter supplies, as producers opt to carry cattle through to heavy weight in response to improved slaughter prices and the better season, especially in Queensland and parts of the NT.

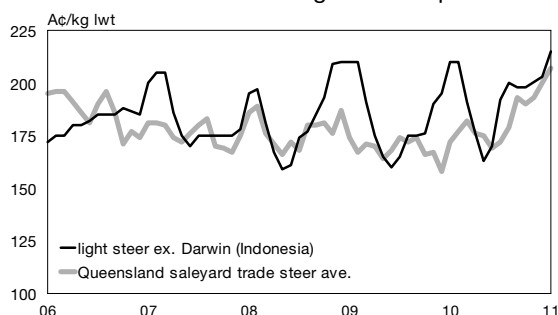
Many of these cattle, which at a young age could have gone to the live trade, will eventually end up in slaughter markets after spending an extensive period on pasture. Grazier demand for light young cattle was robust for much of 2010 and is expected to be maintained in 2011.

As demand will remain very strong from Indonesian feedlots, prices for suitable cattle are expected to again be high (as occurs into any quota restricted market).

In 2010, prices for light cattle eligible under the 350kg weight restriction kicked earlier than in previous years, as supply became an issue, from both the aspect of weight, but also due to unseasonal rain.

Traditionally peaking in early summer, as the wet season kicks in, prices in 2010 increased in July and August, and were then largely maintained through to December.

**Figure 42**  
Indicative live cattle and slaughter cattle prices



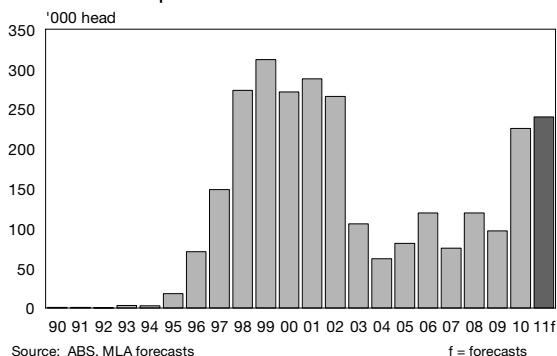
Source: Landmark, MLA's NLRS

For 2010, the indicative prices for light cattle ex. Darwin averaged 5% higher at 192¢/kg lwt. Prices fell to lows in May and June, assisted by the uncertainty surrounding the Indonesian market, but quickly rebounded in July, as supplies of suitable cattle became a concern.

After the rapid finish to 2009, when Australian exports to Indonesia totalled 313,000 head for the final four months of the year, exports began 2010 somewhat slower, with falling market prices and concerns about oversupply leading to talk of permit and weight restrictions.

While the access issues with Indonesia impacted shipments for the year, most of the decline in numbers was offset by an increase in exports to the Middle East. For 2010, shipments to the Middle East are estimated to have totalled 225,547 head, an increase of 133% on the previous year. In 2011, exports to the Middle East are forecast to increase a further 6%, to 240,000 head.

**Figure 43**  
Live cattle exports to the Middle East



Source: ABS, MLA forecasts

f = forecasts

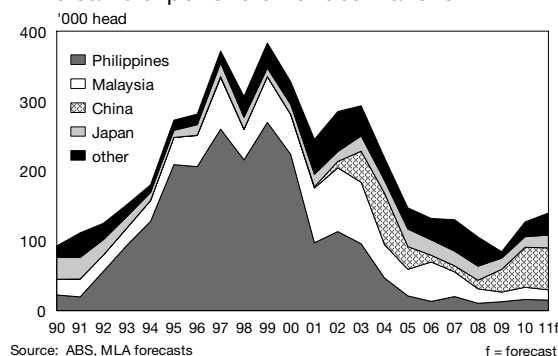
For 2010, Australian live cattle exports to Egypt totalled 56,441 head. Once the largest market for Australian live cattle, the Egypt market re-emerged in 2010 after the establishment of export protocols. Given the potential of the Egyptian market for live shipment, and the continued ongoing work to improve trade access, exports in 2011 are projected to be maintained, if not increase. However, the recent political instability adds to the normal high degree of uncertainty surrounding this trade.

Demand from other Middle Eastern markets was comparatively robust in 2010, including Israel (43,646 head), Jordan (19,257 head), Saudi Arabia (16,501 head) and Qatar (2,561 head). Exports to all these destinations are projected to remain strong in 2011, underpinned by positive economic conditions, rising incomes and tightening supply of protein.

Along with Egypt, one of the main markets for growth in 2010 was Turkey, which received 66,002 head. Also like Egypt, the potential for this market is substantial for Australia, so long as access and shipping constraints can be overcome.

The competitive advantage of boxed beef to the Philippines and Malaysia, along with competition from Indonesia for cattle, has seen Australian exports decline in recent years. In 2010, exports to Malaysia totalled 17,084 tonnes swt – up 25% on 2009, but still well below pre-2008 numbers. Similarly, cattle exports to the Philippines are estimated to have risen 26% year-on-year in 2010, to 16,244 head.

**Figure 44**  
Live cattle exports to other destinations



Source: ABS, MLA forecasts

f = forecast

## Live cattle

For 2011, exports to both Malaysia and the Philippines are expected to ease back to 15,000 head – due to higher Australian cattle prices.

China was Australia's fourth largest live cattle market in 2010, taking 57,552 head – the majority of these being dairy cattle for breeding. Despite continued strong demand from China in 2011, growth in shipments in 2011 are forecast to slow to 4%, to 60,000 head, due to problems in sourcing adequate supplies, if seasonal conditions remain positive in southern Australia.

Beyond 2012, the volume of Australia's live cattle trade is going to be largely determined by access conditions into Indonesia, along with the continued facilitation of trade and access with the Middle East. Exports from 2012 are expected to steadily increase to 1 million head by 2015, up 14% on 2010.



# Sources and acknowledgements

This document was produced and compiled by Meat & Livestock Australia (MLA), with the help of market specialists in MLA's international and domestic marketing divisions and MLA's National Livestock Reporting Service (NLRS) and industry participants in the annual cattle projections workshops.

Baseline forecasts were also provided by the Centre for International Economics' Global Meat Industries (GMI) model.

The sources listed below are also duly acknowledged for the provision of statistical, analytical and forecast information used in this document.

Agriculture and Livestock Industry Corporation (ALIC), Japan	International Monetary Fund (IMF)
Australian Bureau of Agricultural and Resource Economics (ABARE)	Korean Trade Information Service (KOTIS) – the Korea International Trade Association
Australian Bureau of Meteorology (BOM)	Landmark
Australian Bureau of Statistics (ABS)	Meat New Zealand
Australian Lot Feeders' Association (ALFA)	Ministry of Agriculture, Fisheries and Forestry, Japan
Argentinean National Foodstuff Sanitary and Quality Service (SENSA)	Ministry of Agriculture and Fisheries, South Korea
Beef + Lamb New Zealand (formerly Meat & Wool New Zealand)	Ministry of Finance, Japan
CattleFax (US)	Purdue University, USA – James Mintert
Centre for International Economics (CIE)	Reserve Bank of Australia (RBA)
Commonwealth Bureau of Meteorology (BOM)	Secretariat of Foreign Trade, Brazil (SECEX)
Department of Agriculture, Fisheries and Forestry (DAFF), Australia	Steiner Consulting Group, USA
Food and Agriculture Organisation (FAO) – United Nations	The Economic Service – Beef + Lamb New Zealand
Global Trade Atlas (Australia)	<i>The Land</i> newspaper
Instituto de Promoción de la Carne Vacuna Argentina (IPCVA) – Argentine Beef Promotion Institute	United States Department of Agriculture (USDA)
	United States Department of Commerce
	US Census Bureau

# Acronyms

<b>ABARE</b>	– Australian Bureau of Agricultural and Resource Economics
<b>ABS</b>	– Australian Bureau of Statistics
<b>ALFA</b>	– Australian Lot Feeders' Association
<b>ALIC</b>	– Agriculture and Livestock Industry Corporation – Japan
<b>AQIS</b>	– Australian Quarantine and Inspection Service
<b>BSE</b>	– Bovine spongiform encephalopathy (mad cow disease)
<b>BWE</b>	– Boneless weight equivalent
<b>CAP</b>	– Common Agricultural Policy – European Union
<b>CIE</b>	– Centre for International Economics
<b>CIF</b>	– Cost insurance and freight (export price at destination)
<b>CIS</b>	– Commonwealth of Independent States
<b>cwt</b>	– Carcase weight
<b>DAFF</b>	– Department of Agriculture, Forestry and Fisheries – Australia
<b>DN de MA</b>	– Dirección Nacional de Mercados Agroalimentarios (Argentine Department of Agriculture)
<b>EMI</b>	– Eastern Market Indicator (wool price)
<b>EYCI</b>	– Eastern Young Cattle Indicator (price)
<b>EU</b>	– European Union
<b>FAS</b>	– Free alongside ship (export price before departure)
<b>FAO</b>	– Food and Agriculture Organisation (United Nations)
<b>FOB</b>	– Free on board ship (export price loaded on ship before departure)
<b>FMD</b>	– Foot and mouth disease
<b>GFC</b>	– Global Financial Crisis (mid 2008)
<b>GMI</b>	– Global Meat Industries Model (CIE)
<b>IMF</b>	– International Monetary Fund
<b>INAC</b>	– Uruguayan National Meat Institute
<b>JFY</b>	– Japanese fiscal year (April to March)
<b>KORUS</b>	– Korea–US Free Trade Agreement
<b>KOTIS</b>	– Korean Trade Information Service – the Korea International Trade Association
<b>lb</b>	– Pounds weight
<b>lwt</b>	– Liveweight
<b>MLA</b>	– Meat & Livestock Australia
<b>MSA</b>	– Meat Standards Australia
<b>NAFTA</b>	– North American Free Trade Agreement
<b>NLRS</b>	– National Livestock Reporting Service (Meat & Livestock Australia)
<b>NZ</b>	– New Zealand
<b>OIE</b>	– Office International Des Epizooties (world animal health organisation)
<b>PNG</b>	– Papua New Guinea
<b>RBS</b>	– Reserve Bank of Australia
<b>SAGPYA</b>	– Argentinean Agriculture, Livestock, Fisheries and Foodstuff Secretariat
<b>SARS</b>	– Severe acute respiratory syndrome
<b>SENSA</b>	– Argentinean National Foodstuff Sanitary and Quality Service
<b>SECEX</b>	– Brazilian External Trade Secretariat
<b>swt</b>	– Shipped weight
<b>TRQ</b>	– Tariff rate quota
<b>UAE</b>	– United Arab Emirates
<b>UK</b>	– United Kingdom
<b>US</b>	– United States
<b>USDA</b>	– United States Department of Agriculture
<b>WTO</b>	– World Trade Organization

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Level 1, 165 Walker Street  
North Sydney NSW 2060  
Ph: 02 9463 9333  
Fax: 02 9463 9393  
[www.mla.com.au](http://www.mla.com.au)