

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Required Report - public distribution

Date: 3/19/2015

GAIN Report Number: AS1505

Australia

Livestock and Products Semi-annual

2015

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Report Highlights:

In 2014, drought in major northern cattle regions significantly increased turnoff and reduced the size of the cattle herd. Total slaughter was almost ten million; production was 2.6 million tonnes and live cattle exports reached 1.3 million. Post estimates have been adjusted to reflect statistical revisions and new estimates. In 2015, seasonal conditions are a key factor. Continuation of improved rainfall should see herd rebuilding become a greater priority. Producers still face uncertainty over seasonal conditions and pasture recovery will take time. Beef production and exports are expected to decline in 2015 from the records of the previous year. Pig numbers and pork production will be relatively stable in 2015.

Commodities:

Animal Numbers, Cattle

Animal Numbers, Swine

Meat, Beef and Veal

Meat, Swine

CATTLE**Overview**

In 2015, the beef cattle herd is expected to fall six percent to 27.6 million head due to the very high level of turnoff (slaughter and live cattle exports) in the previous two years. Total slaughter is expected to decline to 8.65 million after almost reaching ten million the previous year. Live cattle exports are forecast to fall from a record 1.3 million in 2014 to 0.9 million this year. Domestic cattle and beef prices are likely to recover due to supply constraints and rising international prices.

For 2015, Post revised down the estimated calf crop from 9.6 million to 9.4 million because of adverse conditions, including the continuing drought in northern Australia, the high rate of female cattle in slaughter and diminished fertility levels due to poor pastures. The ratio of female cows in slaughter normally averages around 45-47 percent but exceeded 50 percent for part of 2014 as producers reduced herd size. This changed estimate is based on a calf production rate closer to the historical average.

Almost one million cattle were in feedlots in 2014 due to the diminished pastures in northern NSW and Queensland, but this number is expected to decline in 2015 as pastoral conditions improve. In addition to drought, a higher number of cattle are being finished in feedlots because of increased demand for grain-fed beef from Japan and Korea as well as from the domestic market. Feedlot buyers were active in cattle sales in 2014 and there were 965,000 cattle on feed at the end of the December quarter, ahead of the previous record set in 2006. Exports of grain-fed beef increased by 10 percent in 2014 to 230,700 tonnes.

In 2015, herd re-building is likely to become a greater priority provided that average weather conditions prevail. The recent high turnoff in the drought-affected northern regions is unlikely to be sustainable, but continued adverse weather conditions could lengthen the period of high turnoff. The Bureau of Meteorology's three-month rainfall outlook for moderate conditions across most cattle regions is expected to encourage herd re-building. This process will take time and the diminished Australian herd imposes supply constraints on exports, including to the United States. Post notes some uncertainty over actual cattle numbers as Australian Bureau of Statistics preliminary estimates were revised for 2014.

Production

In 2015, Australia is forecast to produce 2.2 million tonnes of beef and veal, down by 15 percent on the Post estimate for the previous year. However, below average rainfall could affect this outlook and boost slaughter rates and production volumes. Carcass weights are expected to be similar in 2015 to the previous year. Average beef prices have increased in recent years and this trend is expected to continue in 2015. The national yearling feeder steer price in early 2015 was above the average of 187 cents per kilogram for 2014 and 174 cents per kilogram for 2013. High international beef prices have contributed to a strengthening of domestic prices.

Consumption

In 2015, domestic per capita beef consumption is expected fall on the previous year. Almost all fresh meat buyers purchase beef but it faces significant competition from both lower priced chicken and pork. Surveys suggest beef is considered a luxury good compared to white meats. The budget share of all meats is declining as a share of total income as income rises, while the price of red meat has tended to rise faster than for white meats. Hence consumption is expected to continue a downward trend, both overall and on a per capita basis with a consumer move away from red meat towards cheaper sources of animal protein such as chicken and pork. Supermarkets account for 80 percent of red meat sold at a retail level in Australia, a share that has increased in recent years. An increasing share of beef sold by domestic supermarkets is finished at feedlots.

Trade

Australian live cattle exports for 2015 are forecast to decrease significantly to 900,000 head due to supply constraints. The ASEAN markets of Indonesia, Vietnam and Malaysia are expected to remain significant importers of Australian live cattle. China emerged as the third largest importer of Australian live cattle in 2014 and is expected to increase in importance, especially as the China-Australia FTA (CHaфта) provides for the removal of tariffs of up to ten percent over 4 years. CHaфта is expected to come into force in late 2015 and negotiations on import protocols for live cattle imports are currently underway.

Australia was granted access for feeder and slaughter cattle into Thailand on 21 November 2014. There is significant commercial interest in the Thai market, with the first shipment of cattle departing Australia in January 2015. Industry estimates that live cattle exports to Thailand could reach up to 30,000 head annually. Under the Thailand-Australia Free Trade Agreement, Australia enjoys zero tariffs on feeder and slaughter cattle imports into Thailand.

In 2015, beef and veal exports are expected to decline to 1.5 million tons as slaughter rates fall from record levels and herd re-building is given greater priority. The weaker Australian dollar has encouraged exports, as has strong demand from the United States, China, South Korea, South-East Asia and the Middle East, but supply constraints will limit volumes. Australia is expected to remain the largest beef exporter to the US market, which has replaced Japan as the largest export market for Australia.

Australian beef exports to the United States in 2014 increased by 87 percent in volume terms from the previous year to almost 554,000 tonnes. There was strong US demand for manufacturing beef as domestic supplies of lean beef were tight due to reduced cattle slaughter and herd rebuilding. Frozen grass-fed beef accounts for the major share of Australian beef exports to the US market but exports of chilled beef have been increasing in recent years. Chilled grass-fed beef exports increased by 90 percent to reach a record 63,107 tonnes in 2014.

Australian beef exports enter the US market under a tariff rate quota. In 2014, this was set at 413,214 tonnes and the new import quota for 2015 is 418,214 tonnes. Post expects that the stronger US dollar will maintain Australian beef exports to the United States at a slightly lower level of 500,000 tons, representing a smaller decline than for exports to other markets.

China is the fastest growing market for Australian beef exports and is now the fourth largest beef market. The recent free trade agreement between Australia and China is expected to further boost bilateral trade. In 2015, the Japan-Australia economic partnership agreement (JAPEA) began a schedule of cuts to the 38.5 per cent tariff on frozen and chilled beef which will eventually reach 19.5 percent and 23.5 percent respectively over 15 years. From 2015, Japan has reduced tariffs on live cattle imports from Australia by 20 percent, with no volume restrictions and this can be expected to boost trade. Both these developments have met with strong interest from Australian producers which have registered as importers with the responsible Japanese government ministries.

Table 1: Australian Beef Exports (Quantity in '000 metric tons, CWE)

	2010	2011	2012	2013	2014
World	1,368	1,410	1,407	1,593	1,854
United States	354	260	318	297	554
Japan	512	512	438	412	405
South Korea	181	197	199	217	220
China	10	14	49	214	179
Indonesia	74	70	38	56	81
Philippines	27	32	39	42	55
<i>Export market share (%)</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>
United States	25.9	18.5	22.6	18.6	29.9
Japan	37.4	36.3	31.1	25.8	21.9
South Korea	13.2	14.0	14.1	13.6	11.9
China	0.7	1.0	3.5	13.4	9.7
Indonesia	5.4	5.0	2.7	3.5	4.3
Philippines	2.0	2.3	2.8	2.6	3.0

Note: Conversion to carcass weight equivalent (CWE) at 1.4.

Source: Global Trade Atlas.

Table 2: Australian Beef Imports (Quantity in metric tons, CWE)

	2010	2011	2012	2013	2014
World	10	13	12	10	12
New Zealand	7	8	9	7	7
United States	1	1	1	1	1
Brazil	0	0	0	1	1
Other countries	2	4	2	1	3
<i>Export market share (%)</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>
New Zealand	70.8	63.6	74.2	72.5	71.4
United States	12.5	9.7	9.5	9.6	7.3
Brazil	5.5	4.1	2.8	6.0	7.3
Other countries	11.2	22.6	13.5	11.9	14.0

Note: Conversion to carcass weight equivalent (CWE) at 1.4.

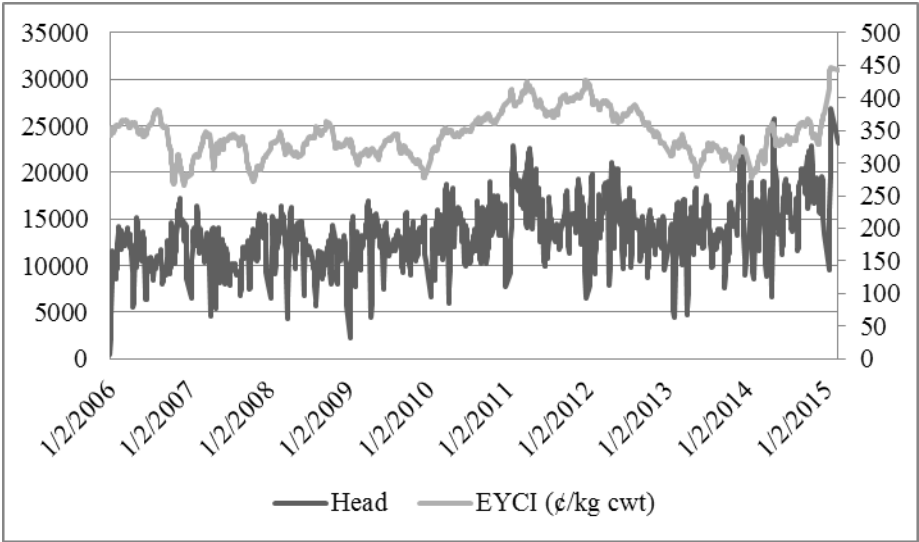
Source: Global Trade Atlas.

Foreign Investment

In early March 2015, the Federal Treasurer approved a A\$1.4 billion takeover bid by Brazilian meat company JBS, to acquire Australian smallgoods producer Primo. The decision follows an announcement by the Australian Competition and Consumer Commission (ACCC) the previous month that it would not oppose the move. BS USA Holdings Inc is the subsidiary of the Brazilian company JBS S.A., which is the world's largest processor of fresh beef and pork. Primo (Australian Consolidated Food Holdings) is the largest producer of ham, bacon and smallgoods in Australia and New Zealand. The Treasurer has approved the sale on condition that an abattoir in NSW must remain open and retain its capacity for consignment killings accessible by third parties

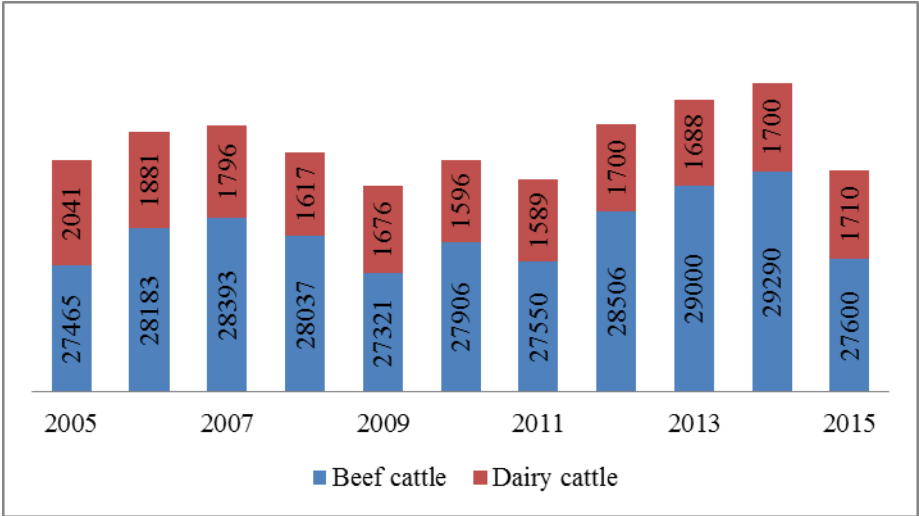
The Treasurer stated that "The government welcomes foreign investment in Australia and continues to ensure that investments are consistent with Australia's national interest". The Agriculture Minister said conditions attached to the sale would ensure that local cattle producers "have certainty around access" for contract processing". JBS will have to report to the Foreign Investment Review Board (FIRB) on its compliance with these conditions every six months and the transaction be reviewed in three years. JBS could be forced to divest the purchase if these conditions are not met. The company has been in Australia for seven years and reportedly owns eleven abattoirs in five States.

Chart 1: Cattle and Beef prices in Australia, 2005-2015, (LHS and RHS)



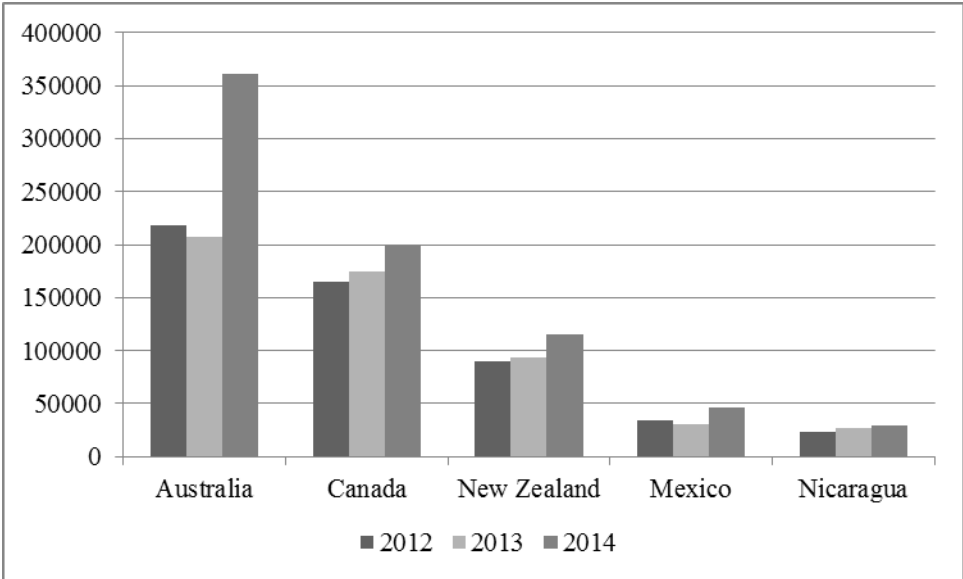
Note: Chart shows the Eastern Young Cattle Indicator to February 2015.
Source: Meat and Livestock Australia website.

Chart 2: Australia: Cattle Inventory, January 2005-2015 ('000 head)



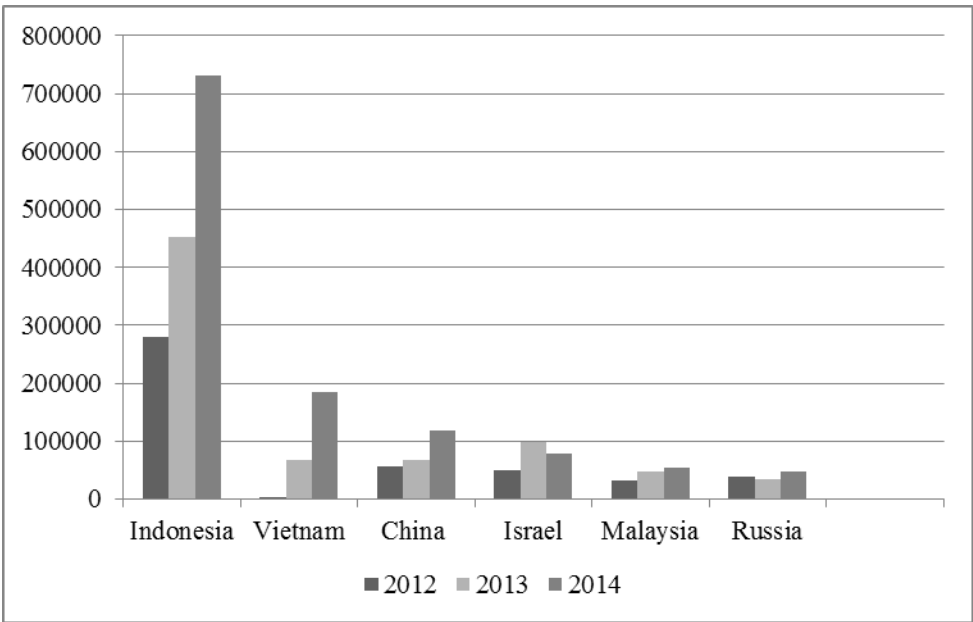
Source: USDA and Post estimates.

Chart 3: US Imports of Beef and Veal, 2012-2014 (metric tons)



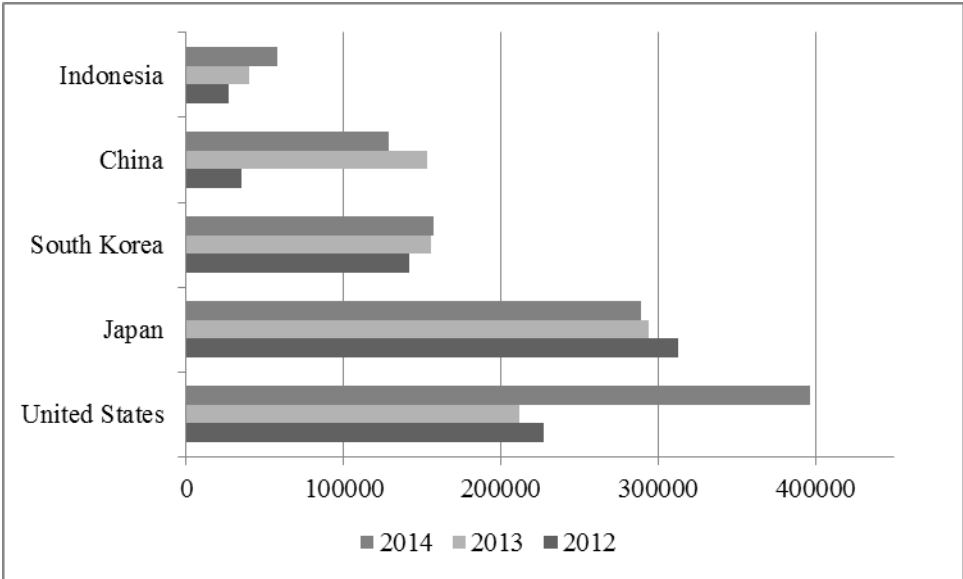
Source: World Trade Atlas.

Chart 4: Australian live cattle exports by major country, 2012-2014 (number)



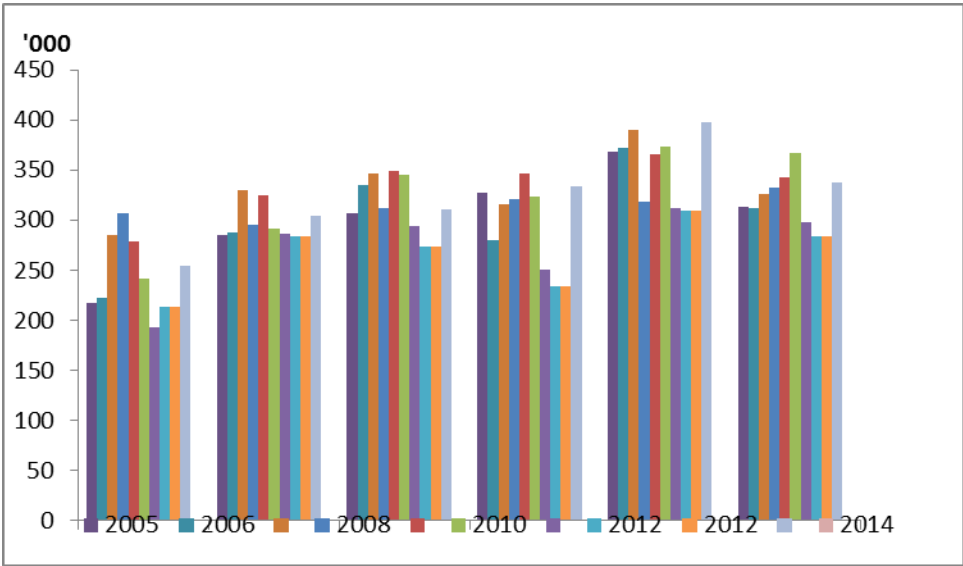
Source: World Trade Atlas.

Chart 5: Australian beef exports by major country, 2012-2014 (metric tons)



Source: World Trade Atlas.

Chart 6: Female cattle slaughter, 2005-2014 (January-June, '000 head)



Source: ABARES, MLA and Post estimates.

Production, Supply and Distribution Statistics

[illegible]

Meat, Beef and Veal	2013/2014		2014/2015		2015/2016	
Market Begin Year	Jan 2013		Jan 2014		Jan 2015	
Australia	USDA Official	New post	USDA Official	New post	USDA Official	New post
Slaughter (Reference)	9,032	9,032	9,675	9,914	8,850	8,650
Beginning Stocks	120	120	90	90	20	17
Production	2,359	2,359	2,510	2,595	2,340	2,203
Total Imports	10	10	12	12	12	12
Total Supply	2,489	2,489	2,612	2,697	2,372	2,232
Total Exports	1,593	1,593	1,775	1,880	1,590	1,515
Human Dom. Consumption	806	806	817	800	765	700
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	806	806	817	800	765	700
Ending Stocks	90	90	20	17	17	17
Total Distribution	2,489	2,489	2,612	2,697	2,372	2,232

1000 HEAD, 1000 MT CWE, PERCENT, PEOPLE, KG

SWINE AND PORK

Production

Total pig slaughter for 2015 is forecast at 4.9 million while pig meat production is expected to increase to 375,000 tonnes. Overall, there are 1,500 pork producers in Australia producing 4.8 million pigs. Post has forecast increased pork production in view of an expected rise in carcass weight to 78 kilograms and a slight expansion in the pig population. In terms of global competitiveness, the Australian pork industry continues to lag behind other countries such as the United States, Canada, and Denmark.

Trade

Exports

In 2015, Australia is likely to export 40,000 tonnes of pork exports (fresh, chilled and frozen), up nine percent from the previous year. Australia's major export markets for pork are Singapore and New Zealand. Pork exports to South Korea are expected to increase under the bilateral free trade agreement which is now in force. Market opening under the FTA provides for Korean tariffs of 22.5 to 25 per cent on key pork exports to be eliminated in five to 15 years. This increased market access is expected to allow Australian pork exporters to compete more equally with exporters from the United States which have benefited from provisions of the earlier South Korea-United States free trade agreement. Further details of the agreement are [here](#).

Under the Japan-Australia Economic Partnership Agreement (JAEPA), Australia will gain preferential access for a large volume of pork (more than ten times current trade) via an Australia-only quota. In 2013, Australian pork exports to Japan were only 279 tonnes, due to significant import restrictions including tariffs of up to ¥482 (\$5.07) per kilogram. The full schedule of tariff concessions is available [here](#).

The China-Australia FTA (CHafta) was concluded in late 2014 and it is expected to come into force in 2015. Under the agreement, tariffs of up to 20 percent on Australian exports of pig meat will be removed over 4 years.

Imports

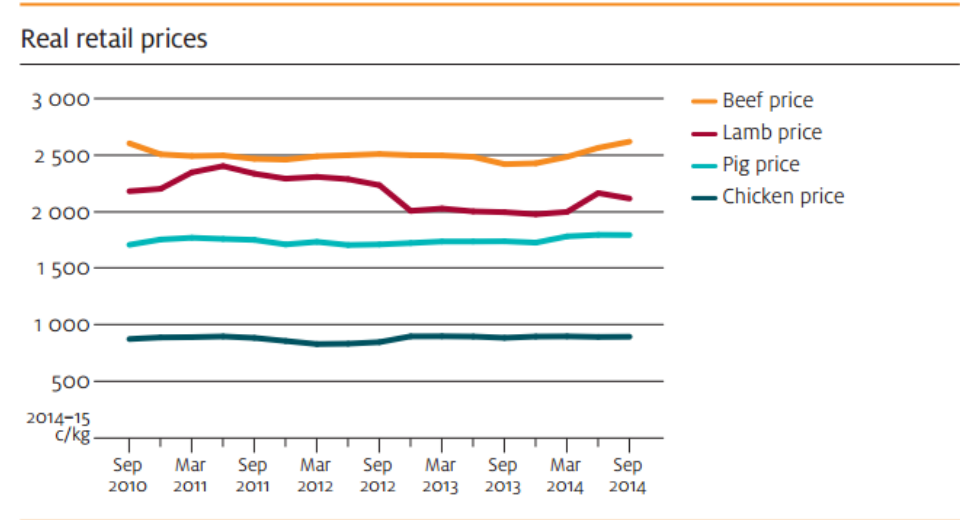
In 2015, imports of frozen boneless pork are expected to be stable at 190,000 tons. The United States is the largest exporter to the Australian market, followed closely by Denmark. Australia has a strict import regime for pig meat and pig meat products, including specific requirements for heat treatment and de-boning of the meat. Heat treatment needs to be carried out within Australia for products containing bones, such as ham. Imports of fresh pork cuts are prohibited under biosecurity protocols.

Imports of deboned pig meat are allowed into Australia from approved countries and must be cooked before sale under specific import conditions. Due to these biosecurity restrictions, all fresh pig meat sold in Australia is domestically produced. The Australian Government considers that import restrictions are necessary against the animal diseases Porcine Reproductive Respiratory Syndrome (PRRS) and Post-weaning Multi-systemic Wasting syndrome (PMWS). However, in 2014, New Zealand opened its markets to US fresh pork imports and accepted scientific evidence that there was negligible danger of this virus from US sourced imports. Post has actively sought to have access opened for US exports of fresh pork cuts to the Australian market.

Consumption

There has been a long-term trend in Australia towards higher consumption of pork and chicken compared to beef and veal, which are typically more expensive. Australian consumption of pig meat over the decade 2013 increased by over 20 percent. In 2014, higher prices led to a decline in consumption, but consumption is expected to recover from 2015. Both imports and domestic production of pig meat are expected to increase over the medium term.

Chart 7: Retail prices for meat varieties in Australia, 2010-2014



Source: ABARES (2015).

Currently 80 percent of Australians buy fresh pork annually. Fresh pork consumption is supplied solely by the local industry and increased to 9.23 kg per capita in 2014 from 8.95 kg per capita in 2013. Consumption generally peaks during Christmas but is stable over the rest of the year. Pork products account for ten percent of total fresh meat retail consumption. Fresh pork sold in Australia is locally grown while around two thirds of processed pork products (ham, bacon and small goods products) are made from frozen boneless pork imported from Denmark, Canada and the United States under biosecurity protocols.

Production, Supply and Distribution Statistics

[illegible]

Meat, Swine	2013/2014		2014/2015		2015/2016	
Market Begin Year	Jan 2013		Jan 2014		Jan 2015	
Australia	USDA Official	New post	USDA Official	New post	USDA Official	New post
Slaughter (Reference)	4,777	4,673	4,775	4,700	4,775	4,900
Beginning Stocks	23	23	20	20	25	28
Production	360	360	365	362	365	375
Total Imports	183	183	185	191	190	190
Total Supply	566	566	570	573	580	593
Total Exports	36	36	37	37	37	40
Human Dom. Consumption	510	510	508	508	518	520
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	510	510	508	508	518	520
Ending Stocks	20	20	25	28	25	33
Total Distribution	566	566	570	573	580	593

1000 HEAD, 1000 MT CWE, PERCENT, PEOPLE, KG