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Beef's next challenge: productivity



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DEMAND for beef seems to have been taken care of for the foreseeable future. Less certain is whether the Australian beef industry has the productivity to fully capitalise on it.

Productivity was a recurrent theme at Beef Australia 2015, where a series of speakers worried that Australia would chug along at current rates of production while global demand for beef soared, and global competition sharpened its game.

“I think productivity is going to be a handbrake on profitability unless we start working on it immediately,” Wellard chief executive Fred Troncone told Fairfax.

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"We're already seeing a shortage of sheep, certainly in the west. It's difficult to find stock sometimes," he said.

"A number of abattoirs here in the south-west are closing for a month in the middle of the year, partly to do maintenance on the plants, but also because it's very difficult to find stock at that time of the year. And the problem is getting worse.

"We're receiving great demand for Australian product. If the stock were there, we certainly wouldn't have a problem finding markets."

Beef herds are being drawn down as demand rises. China had about 100 million beef cattle in 2005. In 2012, it reported a beef herd of 66.5 million (the total 2012 herd was 103 million, including dairy and draft cattle) and an annual slaughter of 47 million head - meaning China ate nearly double the numbers of the entire Australian herd.

"Even if production was to climb 20-30 per cent, I don't see there would be any problem with oversupply," Mr Troncone said.

Proactively acting on opportunity is one side of the equation; the other is investing to stay ahead of ever-declining terms of trade and ever-increasing competition.

Mr Troncone thinks there's still room for beef cattle prices to rise in Australia, but warns about overheated expectations. Beef is one discretionary protein among several, and consumers here and overseas will quickly switch to alternatives if beef prices float too high.

Australian Farm Institute (AFI) executive director Mick Keogh, another Beef 2015 speaker, noted that all Australia's main competitors in the global beef market have a lower cost of production.

One of those competitors, Brazil, is working hard to reopen access for its beef in Japan, China and the Middle East. Australia still holds the disease card, but Brazilian success at regaining access to these markets will have an impact on Australian export volumes.

The Australian response to these trends should be to work toward producing more beef at less cost - except that isn't straightforward.

At Beef 2015, Mr Troncone recalled speaking with a number of northern cattle producers who were keen to develop their properties with fencing and water to improve productivity. But after five years of low

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beef prices, and the complications of drought, few had the means to do so.

Productivity is the interplay between production environment, productivity potential and management, Mr Keogh said.

All those things need to be favourable for productivity gains to be made, which is why he takes exception to some of the criticisms of Meat and Livestock Australia's (MLA) investment in research.

"Pointing to MLA and saying, 'you're just pouring money into productivity research and ignoring profitability' misses the picture," Mr Keogh said.

"You need to develop the productivity potential and the avenues for people to adopt those opportunities when the management and operating environment are right."

Mr Keogh acknowledged that profitability was probably necessary to start the productivity flywheel spinning, but thinks that in the face of the incentives, productivity gains should be sought anyway.

"I agree you need some profitability to trigger capital investment, but if you ignore productivity completely, there's a risk you get run over by the competition."

At Beef 2015, Mr Keogh pointed out that the Australian beef cattle herd has never risen beyond 28-30 million head for long, showing that the Australian environment imposes natural constraints on production.

"We can get more intensive, put more cattle into feedlots, but that's not going to be easy," he said.

"If we're really keen to capitalise on demand, then improving productivity from available resources is the best way to do it."

<http://www.farmonline.com.au/news/agriculture/cattle/beef/beefs-next-challenge-productivity/2734631.aspx?storypage=0>

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