



PRIME CUTS

AMIC PROCESSOR GROUP'S WEEKLY NEWSLETTER

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AMIC 2009 MEAT CONFERENCE

24-25 SEPTEMBER 2009
SHERATON MIRAGE RESORT,
GOLD COAST



ITEMS OF INTEREST THIS WEEK

- **Red Meat Processing Margins** – For the first time in 36 years US meat production is expected to decline across the board as the slumping world economy pressures the industry, according to the USDA. Beef processing margins for US packers have been negative for much of this year, resulting in heavy losses for some. Brazilian packers have reportedly suffered a similar fate, heavily leveraging their expansion plans in past years having been hit hard by a tightening credit market and fall in demand. Australian processors are no different, facing the same set of global factors. AMIC continues to seek a compromise with the Government on their proposal to return to full cost recovery for AQIS Export charges in such a difficult trading environment when other governments are moving to assist their export industries. AMIC next meets with AQIS on May 11.
- **Argentina** - With ongoing political unrest in the agricultural sector in Argentina the meat export sector has found itself in the situation where it may not fill its 28,000 tonne EU HQB quota in 2008/09. There has been a reallocation of remaining quota into the hands of those firms who believe they can meet the shipment deadlines, including airfreight. The product must have entered the EU before 30 June. The 4,325 tonnes shipped in March is the biggest monthly volume since 2002 when shipments were equally behind schedule due to the FMD outbreak. The increased shipments have reportedly seen a broader mix of cuts being shipped, including round cuts in order to meet the shipment cut-off dates. The big drop in steer production over the last 2 years as a result of the political unrest has also affected available supplies for Argentina's Hilton (EU HQB) quota.
- **Brazil** – In the midst of numerous plant closings, bankruptcy filings, drought in some areas as well as the 40% devaluation of the Brazilian Real, comes media reports in the EU of a possible review in policy on Brazilian access to EU markets. Brazil's domestic beef consumption has been steadily increasing since 2004 with an estimated addition of 900,000 metric tonnes consumed during 2008 from 4 years earlier. Domestic consumption is expected to stabilise and the USDA anticipates a 1% decline in Brazilian beef production in 2009. Brazil was the largest exporter to the EU in 2007 but since the beginning of 2008 only an approved list of farms with proven traceability under Brazil's SISBOV system has been able to supply animals for slaughter to be sold in Europe. Brazilian farmers have seen the system as tough and expensive, preventing a return to previous export levels. EU's Director of Animal Health, Bernard Van Goethem, admitted in the media this week that Brazil's calls for leeway on traceability could be answered although opposition within the EU is expected to be strong. Currently 945 farms are approved for the EU, well short of the 2,500 that existed in 2007.
- **Canada** – Canada is filing a formal complaint in the World Trade Organization (WTO) about the US Country of Origin Labelling (COOL) meat laws which it says is devastating the Canadian livestock industry. They say that US meat packers which buy most of Canada's meat are reluctant to segregate livestock and prepare different labels as they are required to do under the new regulations instead they forego buying Canadian livestock altogether. The Canadian industry estimates the legislation has cost it US\$400 million while live hog exports to the US have dropped by 40% as well since the new regulations were introduced. The law has also created an oversupply on the Canadian retail market, meaning lower prices for producers. Initially the law allowed meat packers to verify their product as coming from North America but a voluntary request from the USDA Secretary later asked US packers to go beyond those rules and identify products as being from Canada or Mexico. It would serve Australia and New Zealand well to support the Canadian push. The voluntary recommendation on grinding meat would see the current 60 day period reduced to a very uncommercial 10 day period that could impact on Australia's business as well.
- **Food Service** – While the fundamentals of the world credit crisis have overtaken most other variables within the red meat industry, the move by consumers globally away from top-end restaurants to lower priced, lower quality product has been a trend that has underpinned growth in the quick service fast food sector. Burger King has reported last month worldwide company and restaurant margins were lower than expected primarily due to an unanticipated traffic slowdown in the month of March across most company-owned restaurant markets with company-owned restaurants in Germany and Mexico experiencing the largest decline. They still posted a 15% increase in income.

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No matter what.



- McDonald's Corporation's first quarter profit climbed nearly 4% as more customers worldwide sought a less expensive meal, according to *The Associated Press*. Same-store sales jumped in every area of the world, rising 4.7% in the US. Sales of chicken and breakfast were particularly strong as consumers cut back on their spending and look for a less expensive alternative to sit-down restaurants. McDonald's will also launch its hefty "Angus Burger" in all US locations this year. Having already been sold in several test markets, the burger is slightly more expensive than McDonald's other burgers at US\$4. It's not cheap and has some analysts questioning the rationale in the current market. McDonald's however has been more than recession proof. Last year McDonald's was one of only a handful of publicly trading companies to show a stock gain on the year. McDonald's along with Wal-Mart and other discounters has benefited from a "trade down" phenomenon as cash-strapped Americans stop eating out at better restaurants and start eating out at McDonald's. They announced earlier this year plans to open 1,000 new restaurants in 2009.
- **U.S.** – A disappointment for those who support the use of irradiation for food safety intervention - a study recently printed in the Journal of Food Science suggested that irradiation at higher doses causes a small but statistically significant increase in artery clogging trans-fatty acids in ground beef and frankfurters. The study showed that while low dose irradiation did not induce any change in trans-fatty acid content, the increased irradiation did.
- The US Food & Drug Administration (FDA) confirmed the effective date of April 27 for the final rule banning cattle materials at a high risk of carrying BSE from all animal feed. The agency also established Oct.26 as an extended date by which renderers and packers must be in compliance with the rule. FDA said it received comments from more than 400 organisations and individuals on the proposed delay. In general, proponents of the delay cited the need for more time to come up with alternative methods of disposal of SRM material and dead stock as a substantial volume of material would be diverted from animal feed use by the new requirements.

IMPORT / EXPORT / MARKET ACCESS

EU SHEEPMET QUOTA

Despite the EU accepting fault for a EU Sheepmeat quota conversion error from boneless to bone-in that initially excluded between 60-150 tonnes of sheepmeat in 2008, the EU has failed to resolve the issue and replace the quota at time of writing. As a result DAFF have *not* released the final 30% of quota, waiting for the final figures from the EU. This situation is starting to cause serious concern to a number of quota holders trying to plan their quota use over the 12 month quota year. AMIC has written to DAFF seeking an immediate resolution from the EU or a second interim release of quota. The Embassy has again sought an immediate resolution from EU authorities.

SWINE FLU - The power of the media and market failure

H1N1 flu is now the name of the new hybrid flu virus emanating originally from Mexico that is now hitting countries around the world after starting as 'swine' flu and then being referred to as North American flu. The change is because this is a new hybrid flu with no direct connection to pigs or pork. People *cannot* catch the virus from eating pork. While the illness was not in pigs, the damage to the pork industry has already been done. Consumption of pork of all kinds in Mexico is down 50% over the last week and retailers in the country expect the after effects of the outbreak may last for an extended period. Since beef is out of reach financially for many Mexicans, consumers are substituting chicken for pork which has disrupted that sector as well. The US has lost 10 of its pork export markets according to the American Meat Institute, particularly China and Russia and estimate the ban on pork products will cost the US pork industry roughly US\$13.6 million per week until the trade is restored. This is yet another example of how important perceptions of food safety are and how quickly they can be undermined by misguided reporting. It is encouraging to see the positive response out of the major north Asian markets of Japan, South Korea and Taiwan who on balance took strong, positive actions to inform consumers about the safety of pork and pork imports. While the Mexican market has remained open to US pork (their No.2 pork export market), the big challenge is the noticeable decline in pork demand. US hog futures have entered a downward spiral as a result, as well as hurting the share prices of major US pork processors and also impacting grain markets. Thailand has banned Australian pork for the time being and we haven't had a case yet.

UAE

It would appear the United Arab Emirates (UAE) General Secretariat Municipalities (GSM) has recommenced its efforts to implement an annual fee on all meat establishments exporting meat to the UAE as well as Islamic Organisations (IO's) certifying the Halal slaughtering procedure. A number of Australian packers have been approached this week on what looked otherwise like generic advices. AQIS has been advised that the GSM has notified Islamic Organisations directly, advising of the need to pay a fee to the GSM for their services provided. The IO's have been requested to provide a list of the names and addresses of abattoirs, meat and poultry plants, which they supervise and/or issue Halal certificates for. Trade sources advise that some organisations in the US have paid this fee as well as one or two IO's in Australia but we are unaware of any processing establishments doing so. AMIC continues to oppose the payment as all Halal certification occurs here in Australia but appreciate that with Government signalling they will not intervene, it is becoming a commercial matter. We are unaware of any disruptions to market access as yet.

LIVESTOCK ISSUES

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- **Beef Australia 2009** – Beef Australia 2009 gets underway in Rockhampton from 4-9 May. Three years of fairly intense preparation will culminate in one full week of beef flavoured producer competition and discussion in Rockhampton. MLA are going to be using the forum to launch their recommendations from the Industry Beef Levy Funding Review Committee including the independent review of the effectiveness of the additional \$1.50 beef marketing levy undertaken by Warwick Yates & Associates. Warwick will outline the results of the independent research during presentations at Beef Australia.. This will be the start of the MLA campaign to maintain the \$1.50 levy which sunsets in 2011.
- **A Grass-fed Standard** – Cattle Council of Australia (CCA) is preparing a proposal to put in place a mechanism that will audit the authenticity of a grass-fed beef standard. Beef certified grass-fed would be differentiated from other product by meeting 5 separate specifications – Meat Standards Australia (MSA) grading, antibiotic and HGP-free, have never been confined except for the purposes of weaning or fed grain. With the majority of beef in Australia already grass-fed, CCA say the issue will be identifying the Top 10% to 15% of the market, ensuring it can be produced to meet the standard. The ultimate objective is for producers to be rewarded with a premium price which CCA expects to evolve as the market is established and understood. The proposal has no breed restrictions but individual companies will have specifications attached which producers need to meet. The concept would be that the product would be tagged with a grass-fed AUS-MEAT audited logo together with the processors own brand. The proposal will have to go before the AUS-MEAT Standards & Language Committee for consideration. CCA have committed to discuss the proposal with AMIC before doing so. ALFA's strong promotional push on grainfed beef has no doubt been a factor.

INDUSTRIAL RELATIONS – NO REPORT

OCCUPATIONAL HEALTH & SAFETY (OH&S) - NO REPORT

IN THE NEWS THIS WEEK

- **MLA's Mother's Day Program** – Sam Kekovich returns to television screens across the nation fronting Meat & Livestock Australia's (MLA) Mother's Day campaign. Commencing on April 28 and running up until Mother's Day in all state capital cities, the new 30-second TV commercial is set in a school classroom and features Kekovich playing the role of his nephew. Kekovitch has had a 5-year association with MLA's Australia Day campaign. Lamb roasts are the feature meal for the campaign based on consumer research. Easy cooking tips will also be available in-store and on www.themainmeal.com.au to help anyone cook a delicious lamb roast this Mother's Day. To view the new TV commercial visit <http://www.mla.com.au/video/mumday2009.html> .
- **Emissions Trade Scheme – An Update & a Delay by 1 Year** – With 2 Senate Enquiries and the threat of a recession, the Government has announced it will delay a start to the Emissions Trading Scheme by 1 year. On March 10 however the Government released the exposure draft legislation covering the CPRS. There are 5 other draft Bills amending legislation including tax law, the National Greenhouse & Energy Reporting Act 2007 (NGER Act) and establishing the Australian Climate Change Regulatory Authority as the Scheme's regulator. It appears the Government still plans to introduce the new Bills into Parliament this month but with a number of changes to the scheme including the export exposed facilities important to the meat industry and of course the 1 year delay in implementation. AMIC appeared before the Senate Select Committee on Climate Change policy last week. Judging by comments made during the enquiry, it was apparent the Scheme in its current form was unlikely to pass the Senate.

One issue that is important for processor members is whether or not your emissions are large enough to be the point of obligation in the Scheme from Day-1, a large number of businesses across Australia will be obligated to monitor, measure and report data to the Greenhouse Gas Emissions for the first time from July 1, 2009. The National Greenhouse & Energy Reporting Act 2007 introduced a single national reporting framework and established a mandatory reporting system for corporate greenhouse gas and energy data. The first period of measurement runs from 1 July 2008 until 30 June 2009. Some introductory fact sheets are available on these issues prior to more industry focussed fact sheets still being developed becoming available. Any queries contact the Executive.