



PRIME CUTS



AMIC PROCESSOR GROUP'S WEEKLY NEWSLETTER

Issue No. 21/09 Tuesday 26th May 2009

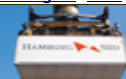
Conference
 AMIC 2009 Meat Conference
 24-25 September 2009
 Sheraton Mirage Resort, Gold Coast

ITEMS OF INTEREST THIS WEEK

- **Vale Ian Ross** - As you may have been aware, Ian Ross, MLA's Regional Manager in the Middle East passed away this week in Bahrain in the Middle East. Members of his family were with Ian at the time of his passing. Our thoughts are with his family and colleagues. Ian made a tremendous contribution to the industry over his career with MLA and before that with the Victorian Department of Agriculture. His commitment and passion across both the production and marketing sectors has been highly respected and he will be sorely missed by all that have worked alongside him.
- **Brazil** – China this week agreed to lift restrictions on imports of Brazilian chicken and beef following a 2-day trip to Beijing by Brazil's President Luiz Inacio Lula da Silva. He held two meetings with China's President Hu Jinto. China has now taken over from the US as Brazil's biggest trading partner underlining the increasing close relations. Brazilian officials told *The Financial Times* this week that the governors of the two country's central banks would meet soon to discuss replacing the US dollar with the Renmambi (Chinese currency) and the Real (Brazilian currency) in trade transactions. Supply agreements on oil, bio-fuels and port construction were also agreed. Brazil is the world's biggest exporter of chicken, selling 3.2 million tonnes abroad in 2007. This compares with 2.5 million tonnes from the US and 685,000 tonnes from the EU. This week's accord allows 24 Brazilian exporters, the majority of its chicken industry, to sell to China with immediate effect. Beijing also agreed to allow more imports of Brazilian beef; China recognises just 4 of Brazil's 27 states as being free of FMD. However the World Organization for Animal Health (OIE) of which both countries are members, recognises 17 Brazilian states as free of the disease. As part of this week's agreement, China agreed to move quickly to allow beef exports from the additional 13 states.
- **Kangaroo** – The Federal Government has made \$215,600 available to the Kangaroo Industry Association of Australia (KIAA) for a marketing campaign to help improve demand for kangaroo meat in China.
- **An Investment in Animal Welfare in the Live Trade** – The Federal Minister for Agriculture Tony Burke has committed \$1.6 million over the next 3 years to improve animal welfare in key livestock export markets as part of the recent Federal Budget. The money will be used for infrastructure improvements, training and education with overseas markets. Given the bill for the live trade for the removal of the 40% contribution to AQIS Export Charges is around \$2.1 m, this may ease the pain of increased charges and was a surprise contribution from Government in the Budget. We can expect they will be fairly quiet on the 40% issue.
- **OIE** – The United Nations Office of International des Epizooties (OIE) are meeting this week in Paris. Japan's BSE status is on the agenda and most likely to be in the "controlled risk" category, the same as the US. The US is still constrained by the 20 month age limit on all cattle sourced for beef for Japan because of BSE.
- **Shipping Economics of the Future** – In a recent article in *Lloyd's List*, Jerry Frank reports that merchant vessels continue to grow in size and offer even larger economies of scale irrespective of the current global trade crash, according to recent French research. Mega ships are the future for maritime commerce and will require further investment in port and land-side logistical infrastructure. The increase in ship sizes also raises big challenges in the area of maritime safety, insurance and risk management. The shipping market downturn will likely spur the adoption of new technology, particularly in the container shipping segment as old and smaller tonnage is taken out of the global fleet. However insurers face a major challenge with the accumulation of risks on board each larger container vessel. The MSC *Napoli* was a 4,500 teu container vessel, a third of the size of the largest vessels now on order but still stands as a second most costly maritime insurance casualty after the *Exxon Valdez*. The move to larger container vessels will also mean better quality ships and a more rigorous operational and safety environment.
- **U.S. Food Safety Issues on "Test & Hold"** – Richard Raymond, former USDA Administrator for Food Safety under the Bush Administration has been running his own blog on food safety matters, especially in regards to *E. coli*. In his latest comments he talks about the benefits of "test and hold" in eliminating unnecessary product recalls in the US. He said "I can only find evidence of 2 ground beef recalls in 2009 and both as a result of FSIS testing. In 2008 it appears to me that there were 8 recalls of ground beef as a result of industry or FSIS testing with no illnesses

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HAMBURG SÜD

related to the product. In 2007 there were 21 recalls, 10 because of testing and in 2006 there were only 8 recalls, all as a result of testing with no illnesses related. So it could be said that so far in 2009 and in all of 2006 there would have been no ground beef recalls if test and hold had been practiced by all in the US industry. Dr Robert Tauxe of the Centre for Disease Control gave a very interesting presentation on the demographics of who gets infected with *E. coli* and what caused the illness www.fsis.usda.gov/PPT/Tauxe_040908.ppt. Tauxe reported that up until 2000, ground beef was the culprit in 100% of *E. coli* O157:H7 outbreaks from which the source was discovered. In 2006 that number was down to 25% of outbreaks that had ground beef as the source. He also said that only 33% of *E. coli* illnesses are related to ground beef and that 34% are related to produce. "Test and hold" is a significant problem for the small grinder but FSIS is doing less testing in the small and very small plants now, reducing the burden. So perhaps it is time for industry to share thoughts and ideas on how to economically test and hold and therefore reduce the amount of bad press that comes with recalls without related diseases".

IMPORT / EXPORT / MARKET ACCESS

EU – BEEF ACCESS / THE NEW GLOBAL QUOTA

Australia is seeking urgent talks with the European Union to ensure a new tariff quota to be established on beef exports does not disadvantage Australia. As reported in recent editions of *Prime Cuts*, the new tariff quota is the result of bilateral negotiations between the EU and the US as part of a possible settlement to their World Trade Organization (WTO) dispute on beef hormones. Australia has written to the EU Commissioner for Trade, Baroness Catherine Ashton, indicating that the tariff quota must operate consistently with WTO rules. The Government has also raised the issue with the EU Ambassador to Australia, Mr David Daly. DFAT understand this new tariff quota for high quality beef (HQB) will be available to all suppliers on a non-discriminatory basis. We have asked Australia's representatives in Geneva and Canberra to register Australia's interest in this new tariff quota and to clarify specifications and how we access it.

- Under the proposed arrangements, the existing US/Canadian HQB quota of 11,500 tonnes remains at 20% import duty. This has a specification tied to the USDA grading system and is US/Canadian specific. Until 2 years ago, less than 1,000 tonnes was shipped each year against it but in 2007 that rose to 2,750 tonnes and in 2008 6,520 tonnes. The new agreement creates an additional 20,000 tonne quota at zero tariffs, moving to 45,000 tonnes in the third year but is *not* country specific. Current advice is that the quota is defined as beef cuts obtained from carcasses of heifer and steers less than 30 months of age that have met minimum lot-feeding requirements and includes meat colour, fat colour, marbling and ossification criteria "evaluated by an employee of the national government" of the country supplying against the quota. A number of countries will be interested in the specification once it is confirmed. Unlike Australia's 7,150 tonne EU HQB quota, this quota will be managed from the EU, not Australia and will be issued to EU importers to utilise.

IRANIAN TRADE MISSION VISITING AUSTRALIA

One of the largest Iranian trade missions in over 10 years to visit Australia arrives in Sydney on 1st June 2009. While over 30 companies and 2 Chambers of Commerce will be represented, the coverage of specific industries is largely in the oil, gas, electricity, industrial chemicals etc, with no specific focus on food and no meat companies. However food companies will be meeting with the Iranian Chamber of Commerce as a potentially useful contact in the future. There has been an elevated interest in Iran over recent weeks, especially for beef but Australia is still negotiating the protocol after changes proposed through commercial sources over the last 12 months proved far more restrictive than the existing protocol and only complicated the process. Australia has not supplied beef to Iran for over a decade, especially since Australia agreed to a HGP-free requirement in the 1990s. Any queries contact the Executive.

IRAQ

A high level Iraqi delegation visited Australia this week and met with a number of Government officials including AQIS. Discussions over import protocols for meat products and an Iraqi Health Certificate were at the top of the list. Current difficulties accessing through Kuwait, Turkey and Jordan, especially access for refrigerated cargo through the port of Basra rather than through Kuwait were discussed. AQIS will provide a report shortly.

EXPORT QUOTA REVIEW

EU HQB Quota – As at 18 May, 99% of Australia's 7,150 tonne quota had been shipped with only approx. 61 tonnes of quota remaining in accounts to be utilised before end of 30 June. The new quota year begins 1st July 2009.


EU Sheepmeat Quota – 44% (or 8,307 tonnes) of EU sheepmeat quota has now been utilised against the total quota of 18,786 tonnes. Despite significant pressure placed on both DAFF in Canberra and on the Embassy in Brussels, we are yet to get a resolution on the miscalculation of Australian entries in 2008. 30% of the quota is still to be allocated by DAFF waiting on the finalisation from the EU. The EU appears in no hurry. It is becoming imperative that DAFF acts.

U.S. Beef Quota – As of 18 May Australia had shipped 146,276 tonnes of its 403,214 tonne US beef quota (or around 36%) to the US. Around 75 tonnes has been shipped to the US outside quota incurring out-of-quota duty. In quota tariff is zero. Beef shipments while well up on last year will still fall well short of the 403,214 tonne quota.



LIVESTOCK ISSUES

(Contact – Christian Mulders Tel: 02 9086.2244 or email cmulders@amic.org.au)

 **Correction** – Further to last week's *Prime Cuts*, if you had difficulty in accessing the website to obtain the copy of AMIC's "National Animal Welfare Standards at Livestock Processing Establishments", click on <http://www.managemysite.com.au/SiteMedia/w3svc116/Uploads/Documents/090515%20%20Processor%20standard.pdf>

- **Cattle Council to Copenhagen** – The Cattle Council of Australia (CCA) and the National Farmers' Federation (NFF) will attend the International Federation of Agricultural Producers meeting on climate change in Copenhagen this week to discuss the issues surrounding an appropriate international response to climate change for Agriculture. Farmer groups from around the world including Denmark, Netherlands, Germany, US, Canada and the UK will attend.
- **National Meat Labelling System for Consumers** – The Primary Industries Ministerial Council (PIMC) referred the issue of a national meat labelling system for retailers and consumers this week to a working group of officials currently focusing on harmonising lamb description standards. Following the tabling of legislation in NSW (the Food Amendment Bill) on a standardised retail meat labelling system, the Council agreed to broaden the scope of the working group to also examine this issue and report back to Council in November 2009. AMIC will need to respond.
- **Australian Animal Welfare Standards & Guidelines – Land Transport of Livestock** – Council endorsed the Australian Animal Standards & Guidelines for the Land Transport of Livestock, which replaces 7 Model Codes of Practice for the land transport of livestock. Further industry consultation will occur before the standards are given legislative effect.

OCCUPATIONAL HEALTH & SAFETY (OH&S) NO REPORT

IN THE NEWS THIS WEEK

- **Pick 'n Pay by Improvements at Franklins** – South African based supermarket group Pick 'n Pay has reported a significant turnaround in the operations at their Australian chain - Franklins. The grocer, which operates over 80 stores throughout the state of New South Wales, reaped a trading profit of R23.5 million (\$3.7m) before capital profits for the year ended February, a marked turnaround from last year's loss of just under A\$5 million in Australia. Turnover grew by around 3.5% in Australian dollar terms. The stark improvement at Franklins, which Pick 'n Pay acquired in 2001, was driven by increased operating efficiencies and double digit turnover growth from refurbished stores. During the 2010 financial year they will complete another 14 store refurbishments. Franklins reported they had discovered a more value-conscious consumer in the past year, with sales of private label and discounted goods stronger than ever. The discount supermarket model has proven resilient in the current environment. Franklins are returning their stores to a more traditional supermarket format with a greater fresh product component.
- **The U.S. Tables an Emissions Trading Scheme** – The much anticipated American Clean Energy & Security Act 2009 (HR 2454) that would establish a "cap and trade" system for CO₂ and other greenhouse gas emissions has been introduced into Congress in the US with the US House of Representatives Energy & Commerce Committee approving the Act. While so far meat industry groups have refrained from public comment, other interested parties from farmers to oil companies have come out against it. According to media reports, the Republicans aren't keen on the legislation and the Democrats are less than united. The Bill has a goal of cutting CO₂ and other greenhouse gas emissions by 83% by 2050. Opponents charge the Bill would cost consumers greatly through increased energy bills.
- **Emissions Trading – Australia** – On 14 May 2009, the Senate referred the provisions of the Government's Carbon Pollution Reduction Scheme (CPRS), to the Senate Standing Committee on Economics for Inquiry to report by 15 June 2009. There are 10 Bills in all. Submissions are invited by Thursday 4 June and will focus on the recent changes to the Scheme. The changes will involve in particular access to free permits under the Emissions Intensive Trade-Exposed (EITE) program which while changed recently to broaden their application, still fall well short of the needs of the trade-exposed nature of the meat industry. The joint AMPC/MLA report from the Centre for International Economics (CIE) that incorporates the original on-farm work done by CIE with the processor case studies undertaken by AMPC, should be available this week. It underpins the estimated cost to the meat industry day 1 of \$63.5 million for the CPRS as currently proposed, as well as the implications for the industry long-term once agriculture is included. It has been promised to the Department of Climate Change and the Senate Committee.

