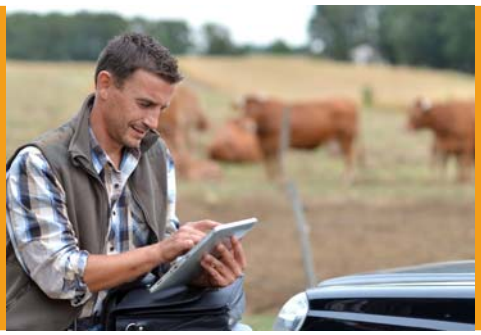


Australian beef producers fare well in 2013

2013 agri benchmark results[1]

Australian beef producers are not alone in suffering from adverse currency movements, rising costs and severe weather events, but are financially, if not physically, performing better than most key competitors.

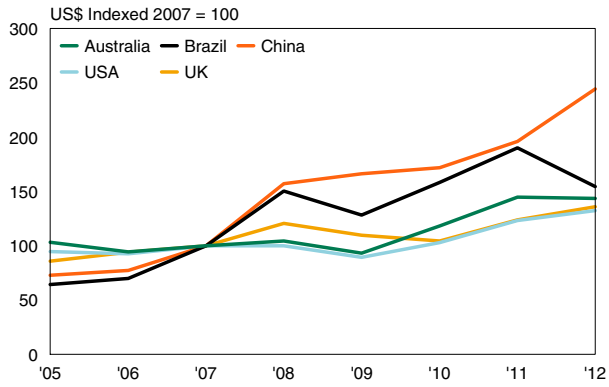
The world's beef markets appear to have reached a critical moment, with rapid growth in demand in the developing world, led by China, pushing global beef prices higher. Current data from *agri benchmark's typical farms* indicates they are covering short-term (cash costs) and medium-term (including depreciation) costs in most key countries. However, rising costs, plus resource and environmental constraints, are generally keeping beef farms from covering long-term costs (including opportunity costs) and so prevented the required global supply response.

Growing demand, especially in Asia and the Middle East, and constrained supply, has already seen world beef prices double in the past decade, along with the price of all other meats.

The nominal beef price rise (in US dollars) has been greatest in China (now five-times 2000 price levels), followed by South America, Australia and Indonesia, and lowest in Europe and North America (double 2000 levels). South American and Australian beef prices have been pushed higher by major currency appreciations against the US dollar and rising production costs.

Indeed, the beef price rise has been largely matched by jumps in global beef farm costs over the past decade, led by the cost of cattle, land and feed, but also fuel, fertiliser and labour. The fastest cost increases since 2005 have been in China (150%) and South America (100%), followed by the US (50%) and Australia (30%). EU cost rises have been around 20% in US$-terms.

Beef farm prices: selected countries



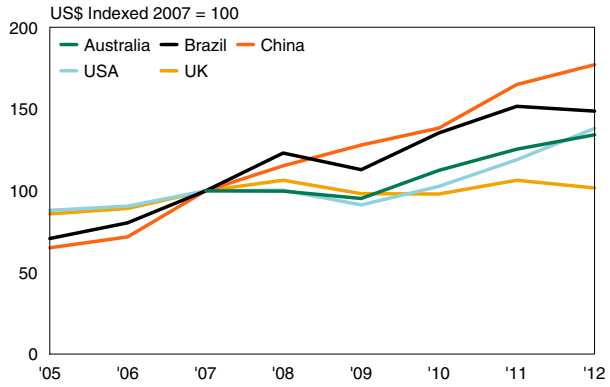
Source: *agri benchmark*

Ukraine

[1] The results in this brochure are drawn from the collective efforts of all 29 member countries (covering 90% of world beef production) culminating in the 11th annual *agri benchmark* conference in York, England, 13-19 June 2013. For more detail, see MLA's Red Meat Market Report entitled '*How are global and Australian beef and sheepmeat producers performing?*' March 2014.

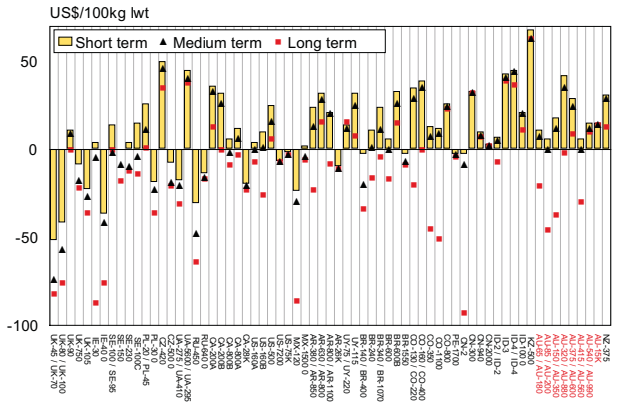
Brazil

Beef farm costs: selected countries



Source: *agri benchmark*

Short, medium and long-term net profit margins for cattle enterprises[2]



Source: *agri benchmark* Farm numbers indicate number of cows/number of cattle sold

[2] Net profit margin is profit as a percentage of gross income. Short-term profit covers all cash costs (including interest and family wages), medium-term profit allows additionally for depreciation, and long-term profit allows additionally for the opportunity costs of land and other capital invested. Codes: numbers indicate enterprise size (e.g. AU-85/AU-200 indicates finishing 85 steers from a 200 cow herd) and country codes indicate location of typical farms, e.g. UK: United Kingdom, BR: Brazil, CN: China. The suffix 'K' means 'kilo' = thousand.

Hence, while cow-calf enterprises have generally been profitable in most countries, beef cattle finishing has not been a profitable pastime over recent years.

However, in 2012, prior to the latest drought, the 'typical' Australian beef cattle farms monitored by *agri benchmark* were mostly profitable, both in the short-term and medium-term, due mainly to the cow-calf portion of farm operations. Few countries can boast long-term profitability at present, but half the Australian cattle farms did in 2012.

agri benchmark expects beef and cattle prices to rise further across global markets in coming years, leading to some general recovery in cattle farm profitability – driven by rising global beef demand, only slow supply growth (including, importantly, in North America, South America and China) and rising costs.

China, in particular, is at a critical juncture, with a likelihood of further substantial growth in beef imports set to stretch the ability of major exporters (Australia, Brazil, India and the US) to supply enough to meet the growing demand.

Australian beef producers are not as well placed to benefit from a buoyant world beef market as they may have been a few years ago, owing to the likely impact of the latest drought on herd numbers.

With growing land, climate and feed constraints, a major ongoing challenge facing future beef production and profitability in all major producing countries is to lift productivity.

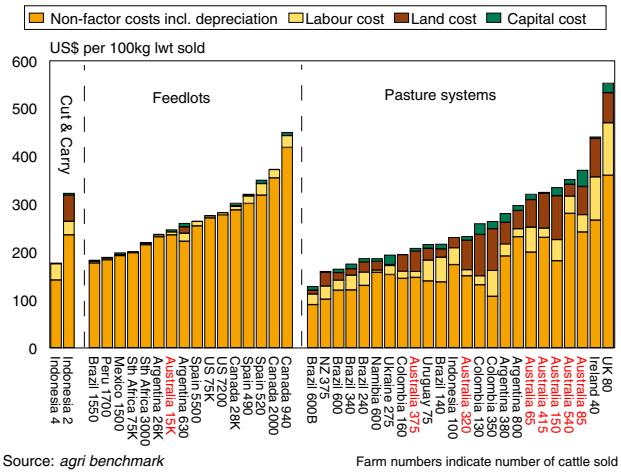
agri benchmark contends that narrowing the enormous gap between the performance of the top and bottom beef producers should be a priority in all major producing and exporting countries, including Australia.

Spain

When compared to similar systems in competitor countries, there appears room for further improvement in Australian reproductive rates and in daily weight gains off pasture.

While Australian cow-calf systems are efficient and low cost by world standards, calf weaning rates of northern Australian systems range between the lowest global performers (in the America's) and the top global performers (in Europe). Depending on the costs and benefits of change, this is likely to be an area for further improvement. Southern Australian systems tend to perform comparably to European and North American systems.

Total average long-run cost of production



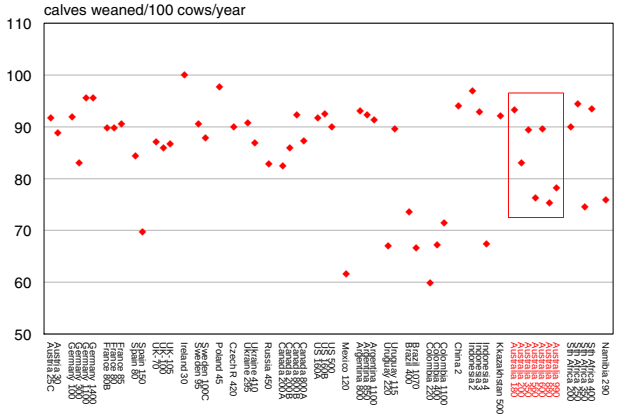
Source: *agri benchmark*

Farm numbers indicate number of cattle sold

The Australian cattle pasture finishing system was also divergent in daily weight gain achieved in 2012 – from amongst the best of its peers overseas to the worst. The lone typical Australian feedlot performed strongly on this measure, even above those in the US, Canada and South Africa, which specialise in lot feeding.

Hence, while global beef farm prospects look bright, Australian producers will need to lift efficiency at least as fast as our main competitors to participate fully in the growth opportunities – producing more beef with less land, high-cost grain and without substantial herd growth.

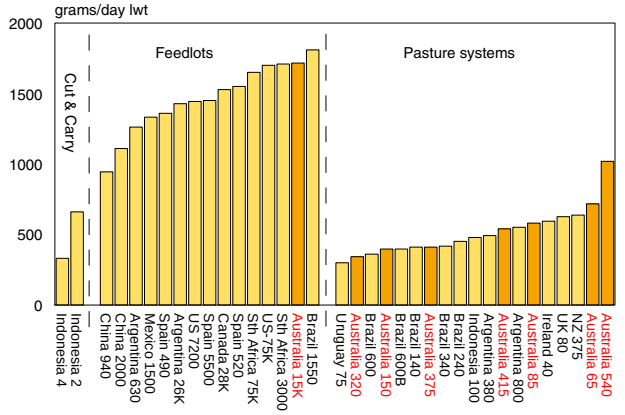
Weaned calves



Source: *agri benchmark*

Farm numbers indicate number of cows

Daily live weight gain[3]



Source: *agri benchmark*

Farm numbers indicate number of cattle sold

[3] Average daily weight gain over whole of life.

What is *agri benchmark*?

agri benchmark is a global, non-profit and non-political network of agricultural economists, advisors, producers and specialists – multi-disciplined farm experts. The cattle and sheep network has 29 member countries, covering 90% of world beef production and 55% of world sheepmeat production.

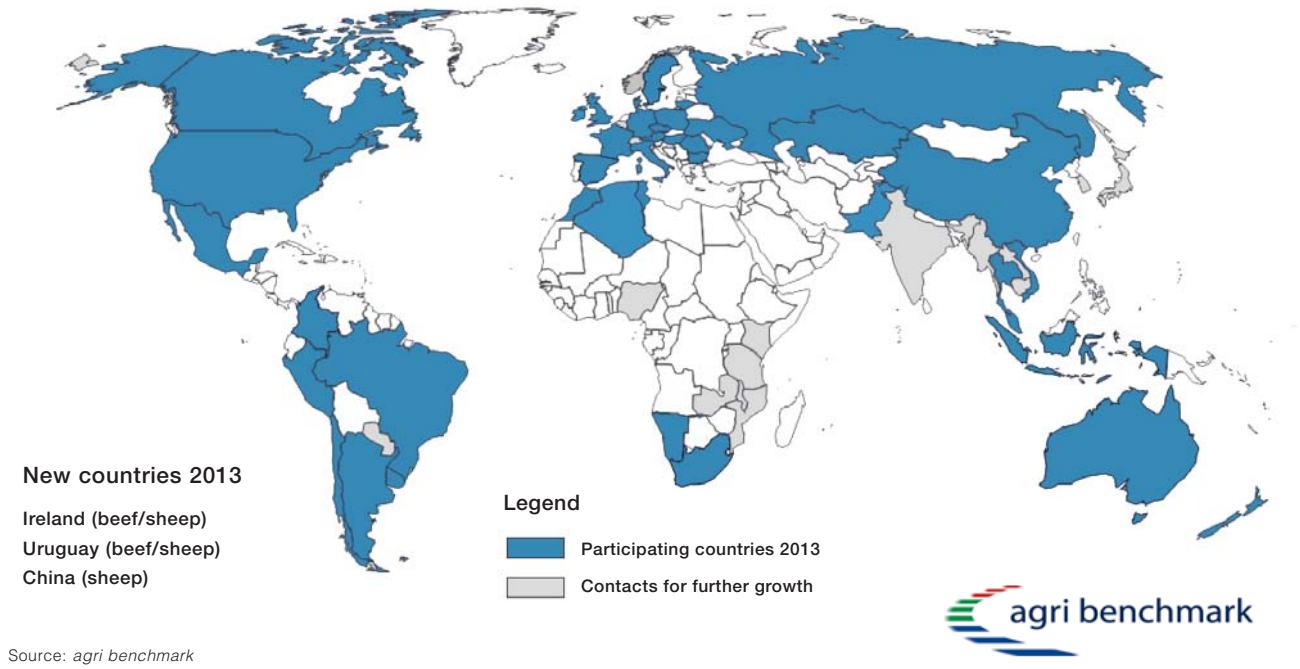
The core competence of the network is the analysis of production systems, their economics, drivers and perspectives, and aims to assist:

- **producers and their organisations** to better understand future production through analysis of comparative performance and positioning;
- **non-profit organisations** (governments, NGOs, international organisations) to monitor and address global agricultural challenges; and
- **agribusinesses** to operate successfully through in-depth understanding of markets and customers.

Australian and New Zealand *agri benchmark* typical cattle farms:

AU180/65 (180 cows/65 steers sold) – Northern tablelands NSW; Angus; pasture
AU200/85 – southern tablelands NSW; British breed; pasture
AU350/150 – western districts Vic.; Angus; hay + oaten grain
AU560/415 – south east Qld; Simmental X Droughtmaster; pasture
AU600/540 – northern slopes NSW; Charolais X Angus; pasture, hay, sorghum
AU880/320 – central Qld; Bos Indicus; pasture, mineral supplements
AU990/375 – central Qld; Bos indicus; pasture, oats grazing
AU15K (15,000 cattle sold) – south east Qld; British, Wagyu X; feedlot; concentrates, roughage
NZ375 (375 bulls finished & sold) – east coast North Island; pastures
For more details see http://www.agribenchmark.org/home.html

Countries in the *agri benchmark* network



Source: *agri benchmark*

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