

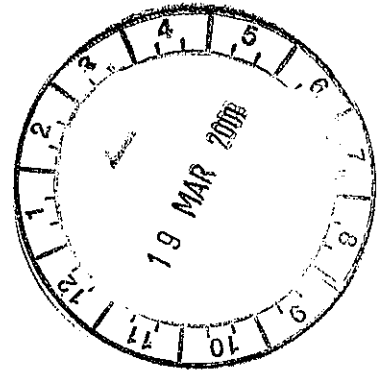


PUBLIC

**Minister for Agriculture and Food; Forestry;
Minister Assisting the Minister for Education**

Ref: 39-02096

Hon Sheila Mills MLC
Chair
Standing Committee on Environment and Public Affairs
Parliament House
PERTH WA 6000



Dear Ms Mills

Thank you for your letter dated 16 February 2009 concerning abattoir capacity in Western Australia.

This matter relates to the beef industry, as currently the major sheep/lamb abattoirs operated by the Western Australian Meat Marketing Cooperative (Katanning) and Fletcher International (Narrikup) are operating at well below capacity. No significant increase in sheep/lambs for slaughter is forecast in the next few years.

The major pig processor, Craig Mostyn Pty Ltd, is also operating below capacity. The closure of the Waroona abattoir (sheep and pigs) in February 2009 was attributed by its owners to a shortage of stock for processing.

Despite some recent improvement, the beef industry in southern Western Australia continues to experience a number of challenges and opportunities at both farm and processing level.

In my view, the industry has moved on from the particular set of market conditions that it faced in late 2007-early 2008, relating to a downturn in the feedlot sector which diverted more cattle for earlier slaughter than would normally occur. The situation at that time heightened producers' concerns about a shortage of abattoir capacity, and also a range of issues along the beef supply chain.

Abattoir capacity

The Western Australian Meat Industry Authority (WAMIA) has advised that it is not aware of any significant shortage of slaughtering capacity, but notes the key role of Harvey Beef. WAMIA has also noted several investment proposals which, if realised, would increase capacity.

A report on "Abattoir Capacity and Utilisation" was prepared by the Department of Agriculture and Food (the Department) and presented to the Cattle Industry Consultative Committee (CICC), which includes representatives of livestock producers, in August 2008.

The report concluded that:

- based on a single-shift operation for 250 days per year, annual slaughtering capacity in mid-2008 was estimated to be 492,000 head; capacity could be increased at some abattoirs by working additional hours;

- slaughterings in 2007 accounted for 95 per cent of estimated annual capacity on a single-shift basis; and
- the high rate of utilisation underlines the importance of the intended increase in capacity at Harvey Beef, especially in processing in months of high seasonal turnoff.

Subsequent to the findings of this report, slaughterings in 2008 increased to 510,000, compared to 469,000 in 2007, mainly due to expansion at Harvey Beef.

No members of the CICC expressed disagreement at that time with the findings of the report.

Effectively, there are no legislative barriers to the establishment of abattoirs in Western Australia, and currently several investment proposals are under consideration. These include:

- T & R Pastoral, a South Australian based company, has stated that it intends to re-open an export abattoir at North Dandalup, and the CEO of the company visited Western Australia in February 2009 to progress waste water options;
- Craig Mostyn Pty Ltd has advised that it is planning to build an export cattle and sheep abattoir at Linley Valley. The company is negotiating with other abattoir operators to replace existing aged plants with a consolidated new facility; and
- W.R. Carpenter Agriculture is in advanced planning to build an export beef abattoir near Cataby with an initial capacity of 60 head per day, but with a design capacity to increase this throughput.

An issue in the processing sector of concern to producers is that there are only two significant export beef processors, Harvey Beef and Western Meat Processors. Harvey Beef is undertaking a major review of its total operating structure. As Harvey Beef accounts for up to 40 per cent of the State's throughput, and is the major exporter, any significant disruption to its operations has a marked impact on the industry. Western Meat Processors is undertaking an expansion (\$750,000) at its Cowaramup abattoir, which will provide for increased slaughter throughput in late 2009.

Beef production

In mid-2008 cattle producers in southern Western Australia were experiencing a period of low profitability with a return on capital of -1.3% for production of yearling steers and -1.7% for weaner steers. Producers experienced sharp increases in fertiliser and fuel costs in addition to ongoing high labour costs. Further, feedlotters in particular were severely disadvantaged by the high grain prices then prevailing. Also, cattle prices were low, partly as a result of the high \$AU at that time (US 98 cents in July 2008). This impacted heavily on export returns.

In February 2009, the sharp increases in input costs had abated and the \$AU had declined to around US 65 cents. Cattle producers have expressed more optimism about farm-level production while continuing to express concern at current beef cattle prices and a range of marketing issues along the supply chain.

Notwithstanding the recent relative improvement in profitability, some cattle producers in southern Western Australia will continue to experience competitive pressures from alternative land uses.

Supply chain issues

In July 2008, the Australian Competition and Consumer Commission (ACCC) presented its report on grocery retailing in Australia. The report provided an examination of supply chain issues including in the beef industry. The ACCC did not identify a lack of competition in the beef market at the national level. The ACCC did not rule out that there could be a lack of competition in specific geographic regions, but it did not provide any evidence that this was the case. Producer representatives in Western Australia expressed disappointment at the ACCC's inquiry.

WA Farmers, the Pastoralists and Graziers Association and WAMIA have formed an industry committee to undertake an analysis of the WA beef industry. This study known as the Beef Stocktake will make recommendations on new cattle and beef marketing arrangements in Western Australia. This initiative is supported by the Department and the consultant is scheduled to report to industry in June 2009. The consultancy will canvass a series of options and strategies to improve the profitability of the beef industry, rather than delivering on one model as originally proposed. The consultancy will also review costs and returns along the supply chain in Western Australia for beef and compare these to selected eastern states supply chains.

The beef abattoir sector has one major processor, Harvey Beef, which is capable of processing at 1000 head of cattle per day and several smaller scale plants at less than 300 head per day. The industry would be better served with having only two high throughputs, technologically advanced and automated processors capable of over 1000 head a day. This would drive economies of scale and efficiencies throughout the value chain, contain costs and support both domestic and export market development.

Beef exports

Despite the improvements in the beef industry outlined above, the Western Australian industry - as with the industry throughout Australia - is not immune to the impact of the global financial crisis on the export sector. Beef exports are being adversely affected by the economic slowdown in key export markets, especially in Asia, and by importers' difficulties in raising finance. However, to date, beef exports have been relatively less affected than many other products. Exports of live cattle (61 per cent to Indonesia) increased to 300,000 head in 2008, which was an increase of 17 per cent on shipments in 2007. Livestock exporters have expressed confidence in the sector's prospects in 2009.

Submission

The submission supporting Petition No. 13 contains several references which relate to the period late 2007 to early 2008. Some of these references are less relevant in February 2009 than in the previous period. However, a fundamental issue remains in that prices for "medium steers", "Jap ox" and "US cow" in Western Australia remain well below levels in other States (Meat and Livestock Australia, Market Statistics, 20 February 2009). This suggests a lack of buying competition in Western Australia which remains a major constraint to increasing the profitability of beef production. This will be investigated in the Beef Stocktake consultancy.

The submission notes that "there has been a significant decline in the number of sheep and lambs in WA". This is the result of an extended period of low prices for wool. Prices for sheep meat are strong and have encouraged some wool producers to diversify further into sheep meat production.

The reference to the removal of \$100,000 of Federal funding for the Beef Stocktake program is correct. Subsequently, the Stocktake program was funded by the Western Australian Cattle Industry Compensation Fund and matching Meat and Livestock Australia funds.

There is a misinterpretation at page 2, paragraph 3, of the Submission, which states that "WA turns off 1.2 million cattle a year", and the reference to 700,000 cattle exported live is incorrect. Slaughtering and live exports in Western Australia in recent years are:

	2005/06	2006/07	2007/08
Slaughtering '000	434	449	487
Live exports '000	290	302	252
Total turnoff '000	724	751	739

I trust that this information is of assistance to the Standing Committee in its deliberations.

Yours sincerely



Terry Redman MLA
MINISTER FOR AGRICULTURE AND FOOD

18 MAR 2009