Where are we heading with the red meat industry? – A WAMMCO perspective

Rob Davidson
Supply Development Manager
Overview

• Who we are
• What we do
• Who we serve
• What WAMMCO is doing to maintain & grow its export markets
WAMMCO is a grower cooperative

- Established in 1999
- Over 1000 active grower members
- Renowned as a lamb value adding specialist
- Mutton - extremely important to overall business
Business positioned on both sides of country

Both plants in major sheep producing regions
Business positioned on both sides of country

Both plants in major sheep producing regions

Weekly processing capacity 45,000 units/wk

Both licensed to export to all major world markets
Where in the world does our Lamb go?

57% or 236,908 tonnes swt of Australian Lamb production left our shores in 2014 to 90 countries.

1. Australia 206,703 cwt (42% of total production)
2. USA 46,194 swt
3. China 38,842 swt
4. UAE 17,479 swt
5. Jordan 14,408 swt
6. Bahrain 11,973 swt
7. Hong Kong 10,601 swt
8. UK 10,561 swt
9. Japan 10,127 swt
10. Qatar 10,078 swt
Value of Australian Lamb exports to the world for 2014 calendar year

Total Lamb export value to 90 countries in 2014 was $1.69 billion

- North America: $519 million
- Russia: $10 million
- Japan: $88 million
- Southeast Asia & Greater China: $382 million
- Middle East/North Africa: $422 million
- Korea: $29 million
- Papua New Guinea: $40 million
- Australia: $1.63 billion
- EU 27: $116 million
- South Africa: $3 million

*Note use of average retail prices is conservative as this does not take into consideration high value lamb and beef items that go to foodservice. Countering this, somewhat, would be lower valued manufacturing product, the price of which is also not considered.
Total Australian lamb exports

54% increase in past 5 years
Core Australian Lamb Export Markets

49% increase in past 5 years; 13% in past 12 months
North America – USA/Canada

- 350M+ American & Canadians
- Gradual recovery in economy
- Lower dollar assisting to keep prices competitive & to stimulate sales growth
- Chasing cuts from heavier lambs
- New business development in Canada
- Consume more garlic/yr/person than lamb
Core Australian Lamb Export Markets

90% increase in past 5 years; 15% in past 12 months
Middle East

- Major markets – UAE, Saudi, Jordan
- Traditional consumers of sheepmeat
- Big increase in 2014/15 tonnages
- Tourism becoming increasingly important for economy
Middle East

Traditional wet market
Middle East

Traditional wet market

Western influenced S/market
Middle East

Sheikh Zayed Road - 1990
Middle East

Sheikh Zayed Road - 1990

Sheikh Zayed Road - 2014
Temperature controlled city

“Mall of the World”

48 million square foot tourist district in Dubai

7km street network covered by retractable roof

Cater for 180 million annual visitors

100 new hotels and serviced apartments – 20000 rooms

World’s largest indoor family theme park

Theatre district modelled on New York’s Broadway

Dubai’s largest event centre catering for 15,000 people
Core Australian Lamb Export Markets

65% increase in past 5 years; 15% fall in past 12 months
China

- Current demand is subdued
- Potentially grown too fast
- Warm winter – associate fatty food with warmth
- High domestic turn off & increased NZ supply
- Revenue levels back 15 - 30% on last season
- Some breast & flap is now sold to Africa
What is China eating?

- Rack cap
- Tripe
- Bones
- Fat
What is China eating?

6 way cut

Flap

Breast

Kidney
What is China eating?
Declining flocks

Sheep population (millions)

Australia
New Zealand


100, 120, 140, 160, 180, 200
Increasing world population

Sheep population (millions)

World population (billion)

- Australia
- New Zealand

- World population

WAMMCO

• Weekly schedule – clearly defines product demanded
<table>
<thead>
<tr>
<th>Weight Range (Kg)</th>
<th>Fat Scores at GR Site</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
</tr>
<tr>
<td>up to 10 kg</td>
<td>NCV</td>
</tr>
<tr>
<td>10.1 to 12 kg</td>
<td>0.50</td>
</tr>
<tr>
<td>12.1 to 14 kg</td>
<td>1.50</td>
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<tr>
<td>14.1 to 16 kg</td>
<td>3.00</td>
</tr>
<tr>
<td>16.1 to 18 kg</td>
<td>4.00</td>
</tr>
<tr>
<td>18.1 to 28 kg</td>
<td>4.00</td>
</tr>
<tr>
<td>Over 28 kg</td>
<td>4.00</td>
</tr>
</tbody>
</table>
WAMMCO

- Weekly schedule – clearly defines product demanded
- Feedback – detailed kill return
LAMB/X-BREED/OLD SEASON

Grower ...
Kill No ... 5196
Abattoir ... Katanning
Date Of Kill ... 16/06/2015
Account ...

No Received ... 663
Rejected by Vet ... 0
Dead in Truck ... 0
Dead in Yard ... 0
No Killed ... 663

SLAUGHTER STATISTICS

VALUE/CARCASE ... $128.93
VALUE/SKIN ... $3.83
VALUE CCS+SKIN ... $132.76
CARCASE WEIGHT ... 23.28 KG
VALUE/KG (Including Skins)... $5.70

WAMMCO Select

This Kill
Head: 331 (49.9%)

WAMMCO Select Average
22.7%

425 (64.1%) of your carcases were 18.1-24kg Fat Score 2-4

<table>
<thead>
<tr>
<th>Fat Score</th>
<th>Fat Score</th>
<th>Fat Score</th>
<th>Fat Score</th>
<th>Fat Score</th>
<th>Fat Score</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;18.1kg</td>
<td>1</td>
<td>0.2%</td>
<td>3</td>
<td>0.5%</td>
<td>4</td>
<td>0.6%</td>
</tr>
<tr>
<td>18.1-24kg</td>
<td>1</td>
<td>0.2%</td>
<td>118</td>
<td>17.8%</td>
<td>305</td>
<td>426</td>
</tr>
<tr>
<td>&gt;24kg</td>
<td>31</td>
<td>4.7%</td>
<td>197</td>
<td>29.7%</td>
<td>4</td>
<td>232</td>
</tr>
<tr>
<td>Total</td>
<td>1</td>
<td>0.2%</td>
<td>150</td>
<td>22.6%</td>
<td>505</td>
<td>662</td>
</tr>
</tbody>
</table>
• Weekly schedule – clearly defines product demanded
• Feedback – detailed kill return
• Carcase Comp – ability to test your system vs colleagues
• Livestock Reps – consultancy service to assist growers improve
• Rebates – reward loyal supporters
Rebates - $14M paid
Marketing

• Must focus on high value chilled markets – minimal frozen

• Increasing demands to implement on-farm QA programs

• Food safety controls ever increasing – protecting the brand
  – Chinese supplier repacking outdated meat / altering expiry dates (McDonalds)
  – Europe’s horse meat scandal – Ikea
  – Incorrect product labelling selling fox meat as donkey – Walmart

• New markets - India
Ca-t lamb-dar of special occasions

<table>
<thead>
<tr>
<th>Event</th>
<th>Market</th>
<th>Timing</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Ramadan</td>
<td>M.East/Asia/USA</td>
<td>June-July</td>
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<tr>
<td>• Eid</td>
<td>M.East/Asia/USA</td>
<td>September</td>
</tr>
<tr>
<td>• Thanksgiving</td>
<td>Canada</td>
<td>October</td>
</tr>
<tr>
<td>• Thanksgiving</td>
<td>USA</td>
<td>November</td>
</tr>
<tr>
<td>• Christmas</td>
<td>Europe/USA</td>
<td>December</td>
</tr>
<tr>
<td>• Australia Day</td>
<td>Australia</td>
<td>January</td>
</tr>
<tr>
<td>• Chinese New Year</td>
<td>China</td>
<td>February</td>
</tr>
<tr>
<td>• Easter</td>
<td>Europe/USA</td>
<td>March</td>
</tr>
<tr>
<td>• ANZAC day</td>
<td>Australia</td>
<td>April</td>
</tr>
<tr>
<td>• Mothers Day</td>
<td>Australia</td>
<td>May</td>
</tr>
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</table>
Market access / Tariffs

• Need to eliminate barriers to trade and investment
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• EU
  – Restrictive quota
  – Aust 19,386T
  – NZ 228,254T
Core Australian Lamb Export Markets

<table>
<thead>
<tr>
<th>Year</th>
<th>N. America</th>
<th>Middle East</th>
<th>China</th>
<th>EU</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td></td>
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<td></td>
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<tr>
<td>2013</td>
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</tr>
<tr>
<td>2014</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>2015</td>
<td></td>
<td></td>
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  – Offals 12-25% eliminated over 4-10 yrs
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  – Skins 5-14% eliminated over 4-8 yrs
  – New Zealand 0% 2016 FTA
Summary

Outlook remains positive for those involved in the lamb industry

• Restrictive supply from Aust & NZ
• Continuing demand from core markets (USA/ME/China)
• Lower A$ will assist good market competitiveness
• Above all lambs needs to meet and surpass customer expectations whilst remaining affordable
Processing challenges

• Capex projects required to ensure
  – Need to consistently meet customer specifications
  – Most efficient processing
  – Maximum product shelf life
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• Plant Utilities
  – Electricity, fuel & water $70K/wk
  – Burn re-cycled oil from mining sector
  – Feasibility study into capturing gas of effluent ponds
  – Bulk purchase water in winter & store 200,000Kl onsite
  – Water Corp increase off peak usage rates by 43% comm. July ‘16
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• Inspection & certification charges
  – Aust Govt full cost recovery for inspection & export certification charges
  – Cost – Aust. red meat industry $81,000,000/yr
Current export industry situation

• Strong export performance and growth over past 12 months supported by core markets
  – North America
  – Middle East

• Current conditions more difficult
  – High prices causing slower demand
  – High inventory levels
  – Softer demand for imports from USA, Europe and China
  – Competition from New Zealand
New Zealand livestock price

Market Insight - June 2015

17-19kg @ NZ$5.25/kg = A$4.68/kg
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• Positive future for the demand-supply balance
  – Continuing demand from core markets (USA/Middle-East/China FTA)
  – Restricted supply from Australia/New Zealand (Aus sheep flock <70m)
  – Good market competitiveness assisted by the A$