



australian commodities

march quarter 08.1

postal address gpo box 1563 canberra 2601 australia
switchboard +61 2 6272 2000

abare is a professionally independent
government economic research agency

editor andrew wright
abare project 1163

© Commonwealth of Australia 2008

Selected passages, tables and diagrams may be
reproduced provided due acknowledgment is made
ISSN 1321-7844

abare.gov.au

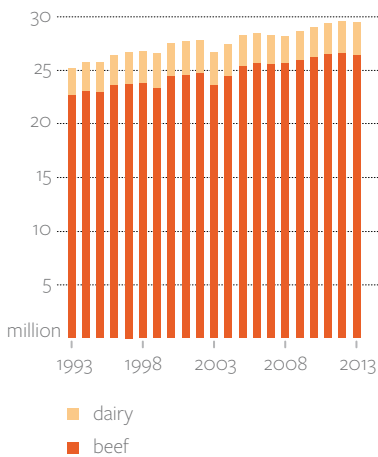
meat

outlook to 2012-13

sally.fletcher, james.fell and john.hogan

beef and veal

australian cattle herd



The Australian weighted saleyard price of beef is forecast to increase by 7 per cent in 2008-09 to average 315 cents a kilogram. Underpinning the rise in prices will be a decline in numbers of cattle turned off for slaughter as producers move to rebuild herd numbers following several years of drought in many regions. The extent of the price increase is expected to be moderated by weaker demand for Australian beef in Japan and the Republic of Korea as competition from the United States increases, particularly toward the latter half of the year.

Over the medium term, higher domestic production and increased competition in key export markets is expected to contribute to some weakening in Australian saleyard prices of beef cattle. In 2012-13, the Australian weighted saleyard price of beef is projected to average a little under 240 cents a kilogram dressed weight (in 2007-08 dollars).

increased beef production over the medium term

Cattle slaughterings remained relatively high during 2006-07 and into the first half of 2007-08 as drought conditions continued, particularly across southern Australia. However, there was only a small fall in the size of the cattle herd to 28.2 million by June 2007. Cattle numbers are forecast to remain around 28.2 million in June 2008.

With an improvement in seasonal conditions over the past few months, particularly in Queensland and northern New South Wales, producers are expected to retain additional stock in order to commence rebuilding their herds. Reflecting an increased retention of female cattle for breeding, total slaughterings are forecast to fall by 2 per cent to 8.6 million in 2008-09. As a result, beef production is also forecast to fall by 2 per cent in 2008-09, to 2.1 million tonnes.

Over the medium term, as the size of the herd increases and herd rebuilding slows, cattle slaughterings are expected to increase. Slaughterings are projected to grow to 9.3 million by 2012-13, with beef production of 2.3 million tonnes. However, as the returns (in real terms) from beef production are steadily eroded over time, the gradual rise in beef cattle numbers is projected to stall by 2012-13.

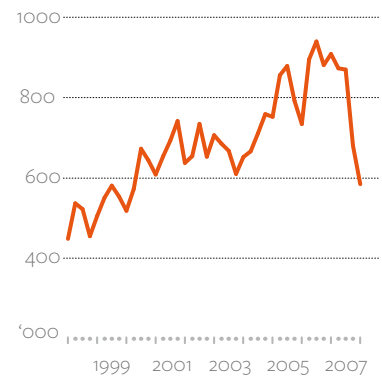
exports constrained in the short term

Japanese restrictions on US beef imports, following the discovery of a bovine spongiform encephalopathy (BSE) infected animal in the US herd in late 2003, remain largely unchanged. Imports of US beef are restricted to meat from cattle of less than 21 months of age and containing no specified risk material such as spinal cord. The restrictions on imports from the United States are expected to limit competition from US beef in the Japanese market during the remainder of 2007-08 and into 2008-09.

Restrictions on the import of US beef into Korea following the BSE events in the United States also remain in place. Only beef containing no bones or other specified risk material and from cattle under 31 months of age is permitted. Increased competition for Australia from the United States in the Korean market is not expected until early 2008-09.

Despite little competition from the United States, exports of Australian beef to Japan and Korea are forecast to be down in 2007-08 because of reduced turnoff of grainfed cattle. In the December quarter of 2007-08, the number of cattle on feed in Australia fell to 584 000, down from over 900 000 a year earlier. The decline reflects high Australian feeder cattle prices, high grain prices, and the eroding effect on export revenues of the appreciation of the Australian dollar against the Japanese yen.

australian feedlot numbers
quarterly, ended december 2007



beef and veal outlook

	unit	2005 -06	2006 -07	2007 -08 f	2008 -09 z	2009 -10 z	2010 -11 z	2011 -12 z	2012 -13 z
saleyard price a									
- nominal	A\$/kg	322	292	294	315	295	285	278	270
- real b	A\$/kg	341	300	294	307	280	264	251	238
cattle numbers c									
- beef	million	28.5	28.2	28.2	28.6	29.1	29.4	29.6	29.5
slaughterings	'000	8 401	9 081	8 800	8 600	8 750	8 900	9 150	9 300
production	kt	2 077	2 226	2 138	2 098	2 144	2 181	2 251	2 297
consumption									
per person	kg	35.4	36.3	36.3	36.5	36.8	37.5	37.6	37.9
retail price									
- nominal	A\$/kg	1540	1538	1550	1560	1560	1565	1570	1575
- real b	A\$/kg	1629	1581	1550	1518	1481	1450	1419	1389
export volume d									
- to united states	kt	892	974	915	880	900	930	950	960
- to japan	kt	295	303	280	280	300	320	340	350
- to korea, rep. of	kt	388	403	360	340	310	300	330	340
- to korea, rep. of	kt	121	157	135	110	100	95	90	90
export value									
- nominal	A\$m	4 272	4 634	4 170	4 300	4 120	4 110	4 100	4 060
- real b	A\$m	4 519	4 763	4 170	4 185	3 912	3 807	3 705	3 580
live cattle exports	'000	549	638	680	700	720	750	770	780

a Dressed weight equivalent. b In 2007-08 Australian dollars. c At 30 June. d Fresh, chilled and frozen, shipped weight. f ABARE forecast. z ABARE projection.

Sources: Department of Agriculture, Fisheries and Forestries; Australian Bureau of Statistics; ABARE.

With markedly fewer cattle on feed, Australian exports of grainfed beef are estimated to fall in 2007-08. Total exports of beef (grain and grass fed) to Japan are estimated to fall by 11 per cent in 2007-08 to 360 000 tonnes (shipped weight), while exports to Korea are estimated to fall by 14 per cent to 135 000 tonnes.

Assuming a good winter grain harvest and a decline in grain prices, the number of cattle on feed in Australia is expected to increase in 2008-09. Nevertheless, exports are forecast to fall slightly further in 2008-09 as a result of lower demand for Australian beef in Korea and Japan.

competition from the united states to grow in korean market

The Republic of Korea is considering fully reopening its market to US beef through a step by step process. At present it only accepts US beef from cattle under 31 months of age and containing no specified risk material (brains, skulls, vertebrae and other bones and certain internal organs). In January 2008, the Agriculture Ministry of Korea proposed an expansion to the range of acceptable US beef products to include bone-in cuts, but this proposal has not yet been agreed upon. The ministry is also understood to be considering the removal of the under 31 months age restriction on US animals slaughtered for the Korea trade, as a possible follow-up measure.

The US Congress is likely to refuse to ratify the recently negotiated free trade agreement with Korea unless the Korean market is fully opened to US beef. The prospect of a delay in ratifying the free trade agreement seems likely to place some pressure on Korea to remove the restrictions on beef imports. However, the timing of the removal of the import restrictions is still uncertain.

When import restrictions on US beef are removed, Korean demand for Australian beef is expected to fall. Reflecting this expectation, Australian exports to Korea are forecast to decline by 19 per cent to 110 000 tonnes in 2008-09, as the United States gains greater access to the Korean market toward the middle of 2008. Australian beef exports to Korea are forecast to fall even further in 2009-10, reflecting the assumption that the United States will have full access to the Korean beef market by then.

It is expected that the Korea-US free trade agreement will be ratified some time after the import restrictions on US beef are removed. This is expected to make the relative price of US beef in Korea lower, and lead to a further fall in the demand for Australian beef. Reflecting these developments, Australian beef exports to Korea are expected to continue falling, with exports projected to be 90 000 tonnes (shipped weight) in 2012-13.

japanese demand for australian beef to fall

Despite continued efforts by the United States during 2007 to have the Japanese import restrictions on US beef relaxed, there have been no changes. The United States has continued to put pressure on Japan to accept the World Organisation for Animal Health (OIE) classification of the United States as a 'controlled risk' region for BSE. The OIE recommends that 'controlled risk' countries be allowed to export beef from cattle under 30 months of age, with specified risk materials removed. Japan is a member of the OIE, but members do not have to adopt the OIE's recommendations, and Japan continues to restrict imports from the United States to beef from cattle under 21 months of age.

In December 2007 the Japanese Government indicated that it had begun discussions with the United States on lifting the age limit to 30 months. However, this would require another risk assessment to be undertaken by Japan's Food Safety Commission, which could take some months.

In the short term, the Japanese import protocol for US beef is expected to remain. As a result, imports of US beef are not forecast to increase substantially until the first half of 2008-09 at the earliest. For the year as a whole, exports of Australian beef to Japan are forecast to fall by 6 per cent to 340 000 tonnes, under the assumption that competition from US beef will increase.

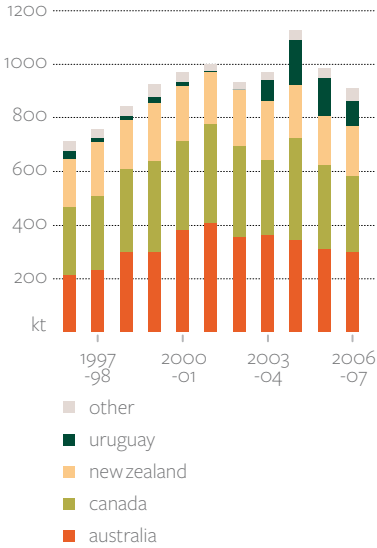
Over the medium term, increased competition from the United States is projected to lead to lower demand for Australian beef in the Japanese market. Japanese consumers, however, are health conscious and, in the past, have been responsive to BSE outbreaks, with total beef consumption in Japan falling in 2001 following the discovery of BSE in Japan. Reflecting this response, the degree to which Japanese consumers accept US beef is unknown. It is likely that it will take time for consumers to regain confidence in US beef, and, as a result, it is projected that Australian beef exports to Japan will remain above pre-2003 volumes.

Australian exports to Japan are projected to fall in the two years to 2010-11 as restrictions on US beef are relaxed and Japanese consumers regain confidence in US product. From 2010-11, exports of Australian beef are projected to rise as the demand for all types of beef in Japan increases and total beef consumption rises. The projected fall in Australian saleyard prices is also expected to contribute to higher export volumes to Japan. By 2012-13, Australian beef exports to Japan are projected to be around 340 000 tonnes.

exports to the united states to increase over the medium term

The demand for imported beef in the United States softened as US cow slaughter increased over the latter half of 2007 in response to dry seasonal

us beef imports



conditions, and US cow prices fell. With herd liquidation expected to continue during 2008, US demand for imported manufacturing beef is likely to remain low. The weaker US demand, combined with constrained supply as Australian producers begin rebuilding herds, is expected to lead to a fall in beef exports to the United States in 2007-08. Exports are forecast to fall further in 2008-09, as Australian saleyard prices rise and US demand remains relatively weak.

Assuming a widespread improvement in seasonal conditions in the United States, cow slaughter is expected to fall from 2009-10 as US producers retain additional female cattle in order to start rebuilding herd numbers. Lower nonfed beef production in the United States can be expected to translate into increased demand for imported beef. With an assumed weaker Australian dollar likely to improve the relative competitiveness of Australian beef in the United States, a small increase in exports to that market is forecast for 2009-10. Increased demand, combined with lower Australian saleyard prices over the medium term is expected to lead to further growth in exports to the United States, with shipments in 2012-13 projected to reach 350 000 tonnes.

Even though there has been more competition from Uruguay in the US beef market since 2003-04, US imports from Uruguay declined in 2005-06 and fell further in 2006-07 as Uruguayan beef was diverted to other markets, including Chile and the Russian Federation.

competition from south america to remain limited

Over the past five years, beef production in south America, particularly in Brazil and Uruguay, has increased. However, competition from Brazil and Argentina in Australia's main export markets has been limited as a result of foot and mouth disease related trade restrictions. Imports of beef from both these countries are currently banned in the United States. If these restrictions were eased at any time in the future, competition for Australian beef would increase.

In January 2008 the European Union restricted beef imports from Brazil because of an EU requirement for improved animal identification and trace-back systems. Imports from approved farms only will be allowed, but as yet no farms have been approved. Until a list of Brazilian farms is approved, beef that was previously exported to the European Union will be diverted to other markets, including the domestic Brazilian market and the Russian Federation. This temporary ban is, however, not expected to lead to a direct increase in competition with Australian beef, as the markets to which Brazilian beef is likely to be diverted are not major markets for Australian beef.

Over the medium term it is expected that competition from south America will be constrained by continuing trade related restrictions and export

controls in Argentina. A projected fall in Australian saleyard prices and an assumed depreciation of the Australian dollar against the US dollar will assist in making Australian beef exports more competitive.

exports of live cattle to increase

Exports of live cattle are estimated to increase by 7 per cent to 680 000 in 2007-08, reflecting an increased availability of suitable cattle in northern Australia following favourable seasonal conditions and strong export demand. Reflecting an expected increase in demand, live cattle exports are forecast to rise to 700 000 in 2008-09, despite a forecast increase in prices.

Over the medium term the number of cattle exported live is projected to increase, driven by solid demand in south east Asian markets, a projected fall in saleyard prices of cattle and an assumed weaker Australian dollar. It is projected that by 2012-13, live cattle exports will reach 780 000 animals.

sheep meat

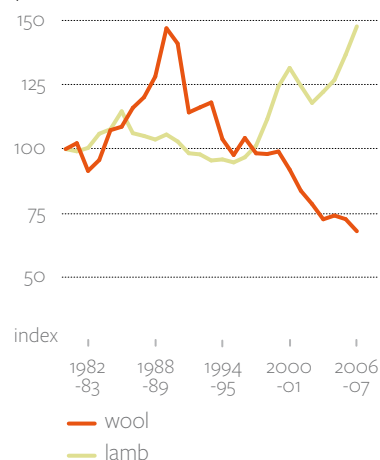
Australian lamb production is forecast to rise by 2 per cent to 412 000 tonnes in 2008-09, which is close to the record achieved in 2006-07. This higher production is expected to come from a combination of increased slaughterings compared with 2007-08 and a slight increase in slaughter weights. Lamb slaughterings are forecast to be around 19.8 million, approximately 1.5 per cent above the estimated figure for 2007-08. Reflecting an expected increase in export and domestic demand, the Australian weighted saleyard price for lambs is forecast to rise by 7 per cent in 2008-09, despite the higher production, to 355 cents a kilogram (dressed weight).

With producers expected to hold on to additional ewes for flock rebuilding in 2008-09, slaughterings of sheep are forecast to fall by 17 per cent to 8.5 million, but then to increase gradually as flock numbers grow over the medium term. Reflecting lower supply of sheep and increased demand as producers begin to restock, the Australian weighted saleyard price of mutton is forecast to rise by 9 per cent in 2008-09 to average 180 cents a kilogram. This increase in prices follows an estimated 21 per cent rise in the average price of mutton in 2007-08 as seasonal conditions show signs of improvement in early 2008.

flock rebuilding in response to more favourable returns

Important factors that are likely to determine the timing and extent of expected flock rebuilding over the projection period are seasonal conditions and the relative returns from various enterprises. High wool prices over the past year, combined with strong saleyard prices for lambs and

australian wool and lamb production



sheep, are expected to provide an incentive for producers to begin rebuilding flocks in 2008-09, and beyond. This projected flock rebuilding is reliant on improved seasonal conditions over the remainder of 2007-08 and in 2008-09, followed by assumed average seasons out to 2012-13.

With widespread rainfall since November 2007, particularly in the eastern states, saleyard sheep prices have begun to increase, suggesting that some producers have already started rebuilding flocks. Sheep slaughter is expected to remain low over the remainder of 2007-08 as producers retain ewes to rebuild flocks. However, in the short term the extent of flock rebuilding is likely to be constrained by an increase in areas planted to crops where feasible, as producers aim to maximise incomes after the 2006 and 2007 drought years.

Over the medium term, the sheep flock is projected to increase despite cropping areas remaining relatively high. The size of the Australian sheep flock is projected to increase steadily, from 85 million in June 2008 to around 96 million by June 2013.

sheep meat production to increase

Over the past twenty years there has been a shift in the composition of the Australian sheep flock, with an increase in the proportion of ewes in the flock joined to meat breed rams. Reflecting this change, lamb production has been increasing even though the sheep flock has been declining. Despite an expected recovery of producer interest in wool production in response to generally favourable prospects for wool, production of lamb and mutton are expected to rise over the medium term. Lamb production is projected to reach 440 000 tonnes by 2012-13, about 7 per cent higher than the record produced in 2006-07. Reflecting expectations that lamb production is likely to rise a little more rapidly than demand, saleyard prices of lambs are projected to drift lower in real terms to average around 265 cents a kilogram (in 2007-08 dollars) by 2012-13.

Assuming improved seasonal conditions, sheep slaughter is forecast to fall in 2008-09 as producers retain additional ewes (to rebuild flocks) and wethers to take advantage of the high wool prices. Over the remainder of the outlook period, sheep slaughterings are forecast to increase but to remain low relative to recent years. Saleyard prices for mutton are projected to fall gradually over the medium term as supply increases. By 2012-13, saleyard prices of mutton are projected to average around 145 cents a kilogram (in 2007-08 dollars). In line with forecast lower turnoff of sheep, mutton production is forecast to fall in 2008-09, but then to increase gradually to a projected 210 000 tonnes by 2012-13 as the size of the flock increases.

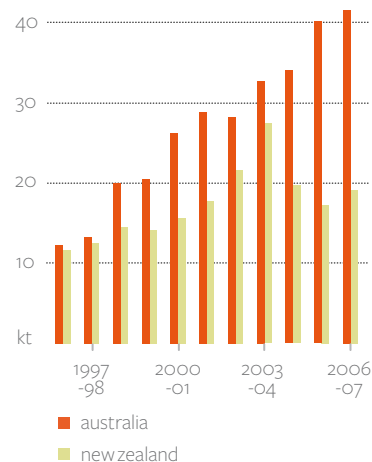
strong export demand for lamb

Total Australian lamb exports are projected to increase in total by 7 per cent over the outlook period, to 175 000 tonnes by 2012-13. The growth in shipments will reflect strong demand from key markets and increased availability of Australian lamb. Australia's largest export market for lamb continues to be the United States, which accounted for around 28 per cent of Australian lamb shipments in 2006-07. Exports of Australian lamb to the United States have been increasing steadily over the past twenty years, despite high prices, as US domestic production has declined.

New Zealand lamb competes with Australian lamb in the US market. However, lamb imports from Australia have continued to increase each year, while US imports from New Zealand have remained relatively flat over the past three years.

Australian exports of lamb to the United States are projected to continue to increase over the medium term, reflecting strong demand and the effects on competitiveness of an assumed depreciation of the Australian dollar.

us lamb imports



sheep meat outlook

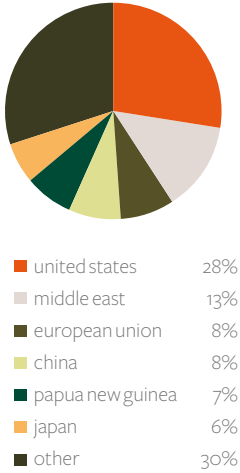
	unit	2005 -06	2006 -07	2007 -08 f	2008 -09 z	2009 -10 z	2010 -11 z	2011 -12 z	2012 -13 z
saleyard price for sheep									
- nominal	A¢/kg	175	136	165	180	176	172	168	165
- real a	A¢/kg	185	140	165	175	167	159	152	145
saleyard price for lambs									
- nominal	A¢/kg	347	326	332	355	345	330	315	300
- real a	A¢/kg	367	335	332	345	328	306	285	265
retail price for lamb									
- nominal	A¢/kg	1216	1220	1230	1260	1270	1280	1290	1300
- real a	A¢/kg	1286	1254	1230	1226	1206	1186	1166	1146
sheep numbers b	million	91	86	85	87	90	92	94	96
slaughterings									
sheep	'000	11 830	13 271	10 200	8 500	9 000	9 400	9 700	10 000
lamb	'000	18 666	20 158	19 500	19 800	20 100	20 400	20 700	21 000
production c									
mutton	kt	244	271	215	180	190	198	205	210
lamb	kt	382	413	404	412	420	426	434	440
consumption per person									
mutton	kg	2.6	2.5	2.3	2.2	2.2	2.2	2.1	2.1
lamb	kg	10.1	10.9	10.0	10.1	10.2	10.2	10.4	10.5
exports									
mutton exports d	kt	145	162	142	108	114	120	126	130
lamb exports d	kt	143	150	160	163	167	170	172	175
- to united states	kt	39	41	44	46	48	50	51	52
lamb export value d									
- nominal	\$m	767	748	830	900	905	910	890	875
- real a	\$m	812	769	830	876	859	843	804	772
live sheep exports	'000	4 248	4 138	3 750	3 700	3 800	4 000	4 100	4 200

a In 2007-08 Australian dollars. b At 30 June. c Carcass weight. d Fresh, chilled and frozen, shipped weight. f ABARE forecast. z ABARE projection.

Sources: Australian Bureau of Statistics; Department of Agriculture, Fisheries and Forestry; ABARE.

pig meat

destinations of australian lamb, 2006-07



Exports to the United States are projected to reach 52 000 tonnes by 2012-13, an 18 per cent increase on 2007-08 volumes. Over the past five years, the Middle East and China have also become major destinations for Australian lamb, as consumer incomes in those regions continue to rise. Demand from these countries is projected to remain strong over the medium term.

australian mutton exports to remain low

With mutton production expected to decline in 2008-09, and prices forecast to rise, mutton exports are forecast to fall by 24 per cent to 108 000 tonnes (shipped weight). Over the medium term, an assumed depreciation of the Australian dollar is expected to contribute to an increase in export demand for Australian mutton. This stronger demand, combined with a fall in saleyard prices, is expected to lead to an increase in mutton exports, with exports in 2012-13 projected to be around 130 000 tonnes.

live sheep exports constrained by supply

Live sheep exports are forecast to fall to 3.7 million in 2008-09, constrained by a limited supply of sheep suitable for live export. The higher wool prices of the past year are likely to encourage producers to retain wethers for longer and hence reduce availability of stock for the live export trade in 2008-09. Over the remainder of the outlook period, live sheep exports are projected to increase as the size of the flock and the turnoff of sheep increases. The assumed depreciation of the Australian dollar is expected to encourage increased demand for Australian live sheep in the Middle East. Live sheep exports are projected to grow to 4.2 million by 2012-13. Despite solid growth, shipments will remain well below the 6.4 million exported 2001-02.

pig meat

The Australian pig industry has been under considerable economic pressure over the past year from high feed costs, low pig prices and growing import competition. Some improvement appears in prospect for 2008-09 as grain prices moderate, slaughterings fall and imports slow. Australian saleyard prices of pigs are forecast to average 7 per cent higher at 250 cents a kilogram in 2008-09, reflecting lower production, a modest reduction in imports and reduced price competition from beef in the domestic market. Over the outlook period saleyard prices are projected to decline in real terms to around 234 cents a kilogram (in 2007-08 dollars) by 2012-13, as competition from imports increases and domestic demand for fresh pork is affected by declining relative prices of beef, lamb and poultry.

In 2008-09, Australian production of pig meat is forecast to fall by 4 per cent to 375 000 tonnes. The forecast fall in production reflects a decline in breeding sow numbers as the industry adjusts to high world and domestic

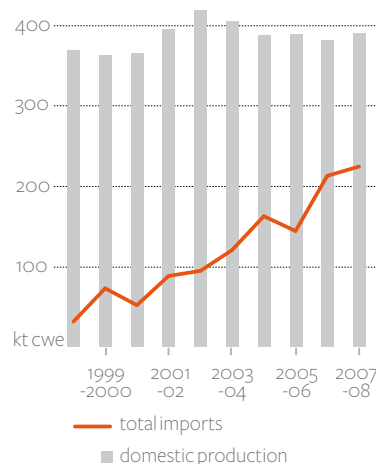
grain prices and growing competition from imports. Production is projected to decline further over the medium term because of some weakening in producer returns, reflecting movements in grain prices, competition from other meats such as beef and poultry, and continued strong competition from imported pig meat. By 2012-13, production is projected to be around 350 000 tonnes.

australian imports of pig meat to increase

Australian imports of pig meat are forecast to fall slightly in 2008-09, resulting in part from an exchange rate related decline in the competitiveness of imported product. The Australian dollar is assumed to depreciate by 4 per cent against the US dollar and 5 per cent against the euro, thus providing short term competitive respite for the local industry. However, over the medium term, the trend to higher imports is expected to continue as Australian production falls. Imports are projected to reach 123 000 tonnes (shipped weight) by 2012-13.

At the same time as Australian producers of pig meat have been adversely affected by high feed costs, high world grain prices have also placed overseas producers under pressure. However, the effect of the high grain

australian pig meat



pig and poultry outlook

	unit	2005 -06	2006 -07	2007 -08 f	2008 -09 z	2009 -10 z	2010 -11 z	2011 -12 z	2012 -13 z
pig meat									
breeding sows a	'000	352	333	310	297	292	287	282	280
saleyard price									
- nominal	A\$/kg	232	255	233	250	253	257	261	265
- real b	A\$/kg	246	262	233	243	240	238	236	234
slaughterings	'000	5370	5322	5450	5250	5090	5052	5025	4990
production	kt	389	382	390	375	362	356	353	350
consumption									
per person	kg	22.8	25.6	26.2	25.2	24.8	24.7	24.7	24.6
imports c									
- fresh	kt	69.9	104.3	109.6	108.0	112.0	114.0	117.0	121.0
- preserved	kt	2.4	2.3	2.4	2.4	2.4	2.4	2.4	2.4
- total	kt	72.3	106.6	112.0	110.4	114.4	116.4	119.4	123.4
exports cd	kt	44.0	41.3	42.0	40.0	38.5	35.0	34.5	34.2
retail price									
- nominal	A\$/kg	1158	1187	1133	1175	1201	1229	1257	1286
- real b	A\$/kg	1225	1220	1133	1143	1140	1138	1136	1134
poultry meat									
production	kt	817	855	860	870	880	894	920	940
consumption									
per person	kg	38.5	39.5	39.2	39.2	39.2	39.4	40.1	40.5
exports	kt	21.6	28.5	30.6	31.1	31.5	32.5	34.5	36.5
retail price									
- nominal	A\$/kg	498	490	532	536	541	548	551	553
- real b	A\$/kg	527	504	532	521	514	507	498	488

a numbers at 30 June. b In 2007-08 Australian dollars. c Shipped weight. d Excludes preserved pig meat. f ABARE forecast. z ABARE projection. Sources: Australian Bureau of Statistics; ABARE.

prices on production in those countries may be less than on Australian producers because of their greater production efficiency stemming from genetic improvements, heavier slaughter weights, a better ability to supply particular cuts of pig meat to specific markets and access to cheaper feed grain, such as corn. In the case of the European Union, the provision of export refunds to its producers to compensate for high feed costs (see box) will also be a factor in EU pig meat remaining competitive in world markets. This will be the case even if the export refunds do not apply specifically to the cuts shipped to Australia.

australian exports to fall

In 2008-09, Australian pig meat exports are forecast to be 40 000 tonnes, a reduction of 5 per cent year on year. This is a result of higher Australian prices and strong export competition from other suppliers in export markets. In the medium term, Australian exports are projected to fall as domestic prices remain relatively high in real terms and global competition remains intense. Exports are projected to fall to around 34 000 tonnes by 2012-13.

export refunds in the european union

On 29 November 2007 the European Commission passed a regulation allowing for the provision of export refunds on specific cuts of pig meat, in response to high feed grain prices. The export refunds replace the Private Storage Aid scheme, which was temporarily suspended. The refunds apply to exports to all destinations and came into effect on 30 November 2007, with no fixed expiry date.

In 2006-07 (before the regulation came into effect), Australia imported 38 000 tonnes of pig meat from the European Union with 98 per cent of the imports coming from Denmark. Most of the product that Australia imports from the European Union is different from the product imported from the United States and Canada. In 2006-07, 85 per cent of Australian pig meat imports from the European Union were 'frozen boneless middle cuts'. The main product imported from the United States and Canada was 'frozen boneless cuts, excluding leg, middle and shoulder cuts'. These made up 72 per cent of pig meat imports from Canada (29 500 tonnes) and the United States (20 000 tonnes), but only 11 per cent of imports from the European Union (4 000 tonnes).

Depending on the specific product, refunds range from €0.152 to €0.542 (approximately 25-90 Australian cents) a kilogram. It is not known what proportion, if any, of EU pig meat exports to Australia will be covered by the export refunds. However, the refunds available would, if applied to product exported to Australia, amount to the equivalent of 5-19 per cent of the average import unit value of Australian imports of EU pig meat.

poultry

Forecast high feed grain prices are expected to moderate growth in poultry production over the outlook period. In 2008-09 production is forecast to increase by 1 per cent to 870 000 tonnes, as the industry responds to growing demand and as productivity improvements offset some of the effects of high grain prices on grower returns. Production is expected to continue to rise over the medium term as productivity growth enables the industry to contain cost increases and continue to be price competitive with other meats. By 2012-13, production is projected to be 9 per cent higher than in 2007-08 at around 940 000 tonnes.

Retail prices of poultry are forecast to average 536 cents a kilogram in 2008-09, little changed from the estimated figure for 2007-08, but 9 per cent up on the average retail price in 2006-07. A major part of the rise in prices in the past year comes as a result of higher feed grain prices and the industry's inability in the short term to offset these through productivity growth.

Looking further ahead, retail prices (in 2007-08 dollars) are projected to decline gradually, falling by 8 per cent over the five years to 2012-13, as productivity improvements continue and grain prices (in real terms) moderate from recent highs.

Consumption of poultry meat is forecast to increase marginally in 2008-09 as poultry becomes more price competitive with substitute meats. Consumption per person is projected to grow steadily over the outlook period to 41 kilograms per person by 2012-13.

Poultry exports are projected to continue to increase over the projection period. An assumed lower Australian dollar is expected to assist the growth in exports, which are projected to rise by about 19 per cent to 37 000 tonnes in the five years to 2012-13.

dairy

outlook to 2012-13

peter.berry and dale.ashton

World prices for dairy products are forecast to decline in 2008-09, but to remain relatively high over the outlook period.

Future growth in world dairy product trade is expected to be relatively slow, reflecting production constraints in the major exporting countries, particularly Australia and the European Union.

A recovery in dairy herd numbers in Australia is expected to be constrained by forecast relatively higher feed costs in the next few years and the lead times involved in rebuilding herds. Australian milk production is projected to recover slowly over the medium term as a result of an assumed improvement in water allocations, rising cow numbers and steady increases in average milk yields per cow.

world dairy prices to remain relatively high

World prices for the major dairy products rose sharply in 2007-08, driven by steady growth in global dairy demand set against slower growth in supplies from the major exporters. In particular, reduced production in Australia (caused by recent drought conditions) is having a significant impact on exports and global dairy trade. Also affecting export availability is the situation in the European Union where changed institutional arrangements and higher production costs will limit growth in output. Together with relatively strong growth in world dairy demand, these production constraints are expected to result in world dairy product prices remaining relatively high over the next few years.

In Australia, dry conditions and very low initial water allocations across most dairying regions resulted in production being down sharply in the first quarter of 2007-08. However, widespread rainfall from late 2007 — together with higher farmgate milk prices — has allowed dairy farmers in many regions to largely maintain production. For 2007-08 as a whole, milk production is projected to be down 5 per cent, reflecting the effects of severe drought that resulted in lower herd numbers and lower milk yields during the first half of the financial year.

In the European Union, milk production is projected to increase marginally in 2007-08 and 2008-09 as higher feed costs adversely affect the profitability of dairying, despite higher dairy prices and an expected increase in EU milk quotas in 2008. In addition, recent reforms to the Common Agricultural Policy (CAP) that have removed some incentives to produce milk will contribute to slower growth in EU milk production over the outlook period.

Increased dairy supplies are expected from New Zealand in 2008-09, where moderate growth in milk production will allow greater dairy product output and exports. Despite drought conditions that are expected to reduce production and exports in 2007-08, a return to average seasonal conditions is expected to result in New Zealand being the main contributor to growth in global export supplies over the next few years, in line with growth in production. There is also some prospect of increased exports from the United States (particularly of skim milk powder, but also cheese and butter) as a result of a moderate increase in production and higher world prices. In addition, an assumed lower US dollar is expected to make US dairy exports more price competitive on world markets.

dairy outlook

	unit	2005 -06	2006 -07	2007 -08 f	2008 -09 z	2009 -10 z	2010 -11 z	2011 -12 z	2012 -13 z
world									
indicative price									
butter									
- nominal	US\$/t	1998	2 023	3 950	3 750	4 050	4 100	3 800	3 500
- real a	US\$/t	2 109	2 082	3 950	3 666	3 870	3 830	3 470	3 124
skim milk powder									
- nominal	US\$/t	2 175	3 188	4 425	4 200	4 550	4 600	4 450	4 100
- real a	US\$/t	2 296	3 280	4 425	4 106	4 348	4 297	4 063	3 659
cheese									
- nominal	US\$/t	2 792	3 004	5 110	4 950	5 250	5 375	5 250	5 000
- real a	US\$/t	2 946	3 091	5 110	4 839	5 017	5 021	4 794	4 463
australia									
cow numbers b	'000	1 879	1 786	1 728	1 795	1 890	1 980	2 060	2 115
yield per cow	L	5 369	5 365	5 260	5 153	5 216	5 328	5 437	5 499
production									
total milk	ML	10 089	9 583	9 090	9 250	9 860	10 550	11 200	11 630
milk sales	ML	2 066	2 161	2 197	2 190	2 230	2 260	2 315	2 375
manufacturing usage	ML	8 023	7 422	6 893	7 060	7 630	8 290	8 885	9 255
butter c	kt	146	133	125	145	155	175	185	196
cheese	kt	373	364	340	355	380	395	410	420
skim milk powder	kt	205	191	170	185	200	224	245	260
wholemilk powder	kt	158	135	130	150	165	185	200	220
milk price d									
- nominal	Ac/L	33.1	33.2	45.0	54.2	56.4	59.6	58.6	57.7
- real e	Ac/L	35.0	34.1	45.0	52.7	53.6	55.2	53.0	50.9
export volume									
butter c	kt	83	81	82	85	97	114	126	135
cheese	kt	202	213	180	200	220	230	250	255
skim milk powder	kt	181	164	145	150	165	190	210	220
wholemilk powder	kt	110	94	88	98	112	137	153	167
export value									
- nominal	A\$m	2 574	2 443	3 560	3 791	4 618	5 329	5 685	5 579
- real e	A\$m	2 724	2 511	3 560	3 689	4 385	4 937	5 138	4 919

a In 2007-08 US dollars. b At 30 June. c Includes the butter equivalent of butteroil, butter concentrate, ghee and dry butterfat. d Includes freight from farm gate to processor in some states. e In 2007-08 Australian dollars. f ABARE forecast. z ABARE projection.

Sources: Australian Bureau of Statistics; Dairy Australia; ABARE.

Over the outlook period, global demand for dairy products is expected to grow steadily, with firm economic growth projected for all major importers of dairy products. However, from around the middle of the outlook period, growth in production in major exporting countries is forecast to exceed growth in world import demand and this is expected to put downward pressure on prices.

world milk production growth to be constrained

In 2007, world cow milk production rose by 1.6 per cent to around 570 million tonnes. The major contributors to this rise (by volume) were China (up 10 per cent), the United States (up 2 per cent), Brazil (up 6 per cent) and India (up 3 per cent). Among the major dairy exporters, New Zealand production increased by almost 3 per cent, European Union production grew marginally, while production fell by 5 per cent in Australia.

World dairy production in 2008-09 and 2009-10 is forecast to grow at a relatively slow rate. Most of the forecast growth in global production is expected to come from emerging dairy producers, particularly China (which is expected to raise milk production sharply in 2008 to become the world's third largest milk producing country) as well as India and south America. However, almost all of this increase in production is expected to be consumed domestically rather than exported.

In contrast, production in the major dairy exporting countries of the European Union, New Zealand and Australia is forecast to grow relatively slowly. This is a result of changes to production incentives under the Common Agricultural Policy (CAP) in the European Union, higher feed prices and lead times in herd building in New Zealand and recovery from recent drought conditions and associated irrigation water supply constraints in Australia.

Over the remainder of the outlook period, developing countries, particularly China, India and in south America, are expected to provide the bulk of the increase in global milk production, driven by rising average incomes, increasing domestic demand and greater investment in production capacity. However, with dairy production forecast to grow faster than consumption in these countries, domestic production is expected to account for an increasing proportion of domestic dairy consumption. This is expected to reduce import demand, particularly in China, and contribute to an increase in the supply of dairy products entering global trade in the latter part of the outlook period.

In the European Union (the world's largest dairy producer), dairy output will be constrained over the next few years by production quotas — although these are expected to be progressively eased. Forecast higher feed prices will also reduce dairy profitability and production, while reforms to the Common Agricultural Policy have largely reduced incentives to produce in

excess of market requirements. In the United States, growth in dairy production is also expected to be constrained by higher feed costs — particularly for grain crops used in the production of biofuels — that will affect the profitability of dairying. In Australia, a slow recovery in dairy production is projected, with cow numbers expected to take some years to recover from recent drought conditions.

New Zealand, in contrast, is the only major exporter that is expected to increase production significantly over the period to 2012-13. An expansion of New Zealand's dairy industry is expected in response to high world prices. However, growth in New Zealand's dairy output (and consequent growth in exports) is expected to be limited to some extent by a number of factors, including concerns over the environmental impacts of dairying and lead times in building dairy herds.

world dairy consumption continues to grow

World consumption of milk and processed dairy products has grown steadily in recent years, driven by population growth, rising incomes and changing consumption patterns. Of the major dairy products, total world butter consumption increased by 23 per cent between 2000 and 2007, while cheese increased by 16 per cent and whole milk powder by 13 per cent. Consumption of skim milk powder, however, was down by 8 per cent over the period. Increases in world consumption of dairy products were driven largely by increased consumption in China, India, the Russian Federation and Ukraine.

In some of the major developing countries in Asia, adoption of more western style diets has resulted in greater consumption of dairy foods. Between 2000 and 2007, fluid milk consumption in the major emerging economies of China (the world's largest importer of dairy products) and India is estimated to have increased by 300 per cent to 36 million tonnes and 25 per cent to 99 million tonnes respectively. Milk and dairy product consumption per person in China and India remains low compared with more developed countries and is strongly correlated with growing incomes and the existence of well developed retail supply chains and cold storage — especially the ownership of domestic refrigerators. As a result, there remains potential for significant rises in dairy consumption in these countries over the outlook period.

world dairy stocks are largely exhausted

With strong growth in global dairy consumption exceeding growth in production over the past few years, world stocks of the main processed dairy products were largely eliminated in 2007. Most notably, dairy product intervention stocks in the European Union have been exhausted for the first time in many years. The effective elimination of EU intervention stocks has

removed some dairy product supply from world trade and contributed to higher world dairy prices.

world dairy trade to grow relatively slowly

With growth of world dairy trade being dependent on growth in global export supplies, relatively slow growth in production in the major exporters (and some emerging exporters) is expected to result in slow growth in world dairy trade in 2008-09 and 2009-10. Exports of dairy products from Argentina, the European Union and Ukraine are expected to be relatively flat or declining, while the rate of growth in Australian exports is expected to be moderate. Stronger growth in exports, however, is expected from New Zealand, and also from the United States, where a lower US dollar has increased export competitiveness and encouraged greater exports of skim milk powder, cheese and butter.

Over the medium term, the rate of growth in world dairy product exports is expected to increase, largely in response to higher production in New Zealand, Australia and some emerging producers, including Brazil and Argentina. The overall volume of world trade in dairy products will be limited by reductions in import demand from some key countries. China, Mexico and Brazil, for example, may supply more of their dairy consumption needs from domestic production, potentially reducing their demand for imports.

outlook for dairy product prices

World prices for most dairy products are forecast to decline in 2008-09, as production and exports rise in response to recent higher world prices. The United States, in particular, is expected to increase exports as a result of rising production, a lower US dollar and world prices that have exceeded prices available domestically. World dairy prices are also expected to be affected by some food processors substituting other inputs for higher priced dairy ingredients and reducing their consumption of dairy products. Despite these developments, world dairy prices are forecast to remain relatively high over the outlook period as demand continues to grow relative to global production.

cheese

After rising sharply in 2007-08, world cheese prices are forecast to fall in 2008-09, to average US\$4950 a tonne, in response to growth in global production and exports. Cheese prices are expected to remain relatively high over the remainder of the outlook period, as strong growth in import demand is matched by growth in production and exports from major producers. After peaking at around US\$5020 in 2010-11, cheese prices in real terms (2007-08 dollars) are projected to decline to US\$4460 a tonne in 2012-13.

world dairy product prices



Future growth in global cheese consumption will be linked strongly to rising consumer incomes and a trend toward more western style diets, particularly in the major developing countries of Asia, eastern Europe and in the new member states of the European Union.

The Russian Federation is the world's largest importer of cheese, with imports of 250 000 tonnes in 2007 or around 22 per cent of world cheese trade. This represents a fourfold increase in cheese imports since 2000. With rising incomes and growth in consumption consistently exceeding growth in domestic cheese production, the Russian Federation's imports are expected to continue to expand in 2008 and over the remainder of the outlook period.

Similarly, the Republic of Korea and Mexico are also growing importers of cheese, increasing their imports by 57 per cent and 63 per cent respectively since 2000 to collectively account for around 12 per cent of world cheese trade in 2007. Cheese imports by these countries are expected to continue to grow strongly as consumer incomes increase.

Japan (which consistently accounts for around 20 per cent of world cheese imports or more than 200 000 tonnes a year) is a relatively mature market for cheese, with consumption growing at around 1 per cent a year since 2000. As a result, cheese imports by Japan are expected to grow at a slow rate over the medium term, while its relative importance as an importer is expected to continue to decline.

whole milk powder

After a strong rise in 2007-08, world whole milk powder prices are forecast to fall to around US\$4380 a tonne in 2008-09. However, prices are forecast to remain relatively high over the projection period, averaging US\$4700 a tonne in 2010-11. With growth in export supplies expected to exceed growth in import demand toward the end of the outlook period, world prices in real terms are projected to decline to US\$3700 a tonne (in 2007-08 dollar) in 2012-13.

Growth in import demand for is driven largely by income growth in developing countries, where milk powders have a long shelf life. Among the countries with the greatest influence on imports of whole milk powder are Algeria and China, where imports were up 59 per cent to 175 000 tonnes and 12 per cent to 57 000 tonnes respectively between 2000 and 2007. Algerian imports accounted for 40 per cent of total world imports of whole milk powder in 2007 (up from 17 per cent in 2000). In the same year, China accounted for 13 per cent of world imports. However, import demand for whole milk powder in China is expected to fall as rising domestic production increasingly displaces imports over the next few years.

Over the medium term, growth in demand for whole milk powder and trade in the product is expected to be underpinned by a significant shift in demand in some countries (particularly China, Chinese Taipei and Peru) away from the commercial reconstitution of skim milk powder toward decentralised reconstitution of whole milk powder by end consumers.

Growth in world exports of whole milk powder has been constrained by a significant decrease in WMP production in the European Union. With relatively flat milk production and relatively higher prices on offer for cheese, an increasing proportion of EU milk production has been diverted to the production of cheese at the expense of milk powder production, which is forecast to decline moderately in 2008-09. In addition, strong demand for whole milk powder within the European Union (particularly for the processed food industry) has resulted in the exhaustion of intervention stocks.

Over the next few years, the major source of growth in exportable supplies of whole milk powder is expected to be New Zealand, in line with expanding domestic milk production. With EU milk production expected to remain relatively flat over the medium term, and cheese production set to continue to rise, growth in EU exports of whole milk powder is expected to be relatively limited over the projection period.

skim milk powder

After averaging a little over US\$4420 a tonne in 2007-08, world skim milk powder prices are forecast to fall to average around US\$4200 a tonne in 2008-09, largely in response to an increase in production and exports from the United States. Prices are forecast to rise moderately in 2009-10 as a lack of global stocks and relatively slow growth in world dairy production limit growth in tradable supplies relative to import demand. Around the middle of the outlook period, as export supplies begin to expand more strongly, world prices for skim milk powder in real terms are projected to decline to average around US\$3660 a tonne (in 2007-08 dollars) in 2012-13.

Growing world demand for skim milk powder is being driven largely by rising incomes and increasing import demand in developing countries in Asia and eastern Europe. Increased demand has also been apparent in the European Union, where food regulations in the wake of previous occurrences of bovine spongiform encephalopathy (BSE or 'mad cow' disease) have resulted in increased use of skim milk powder in animal feeds as a protein supplement, and in food processing.

Despite strong world demand for the powder, growth in production has been limited by slower growth in global milk production. In addition, a greater proportion of milk production has been diverted to the production of cheese, which has attracted higher returns. This has limited growth in production in the European Union and contributed to a depletion of world stocks and export availabilities.

Production and exports of skim milk powder are expected to be down in Australia, Argentina and Ukraine. Production in the United States, however, is expanding and — aided by higher world prices and a lower US dollar — has resulted in increased exports in 2007-08. These conditions are expected to continue in the coming year, resulting in a further increase in US exports in 2008-09.

butter

Constrained growth in world butter production — largely through milk supplies being diverted to cheese production — has reduced the exportable supplies of butter in the major exporting countries. As a consequence, exports of butter from Australia, New Zealand and the European Union are expected to be lower in 2008-09 and to remain relatively constrained over much of the outlook period as the trend toward increased cheese production continues.

World butter prices are forecast to decline by 5 per cent to US\$3750 a tonne in 2008-09, reflecting moderate growth in exports from the United States. Despite this, butter prices are projected to remain relatively high in real terms over the outlook period as a result of constrained growth in export supplies. From a forecast average price of around US\$3900 a tonne in 2009-10, the world price of butter is projected to decline to around US\$3100 a tonne (in 2007-08 dollars) in 2012-13.

production quotas in the european union important to dairy price outlook

As the world's largest producer and exporter of dairy products, the European Union will play an important role in both the short and medium term outlook. The large size of the EU dairy industry and any repeat of its previous propensity to dispose of surpluses on world markets at subsidised prices mean that EU actions can have a major destabilising effect on global prices and trade.

Despite the prospect of higher world dairy prices, milk production in the European Union is forecast to increase relatively slowly over the outlook period, limited by production quotas. The 2003 reforms to the Common Agricultural Policy mandated a 0.5 per cent increase in milk quotas for EU member states in 2008 and a further easing of quota restrictions ahead of the expected abolition of milk production quotas in 2015. However, new CAP reform proposals presented to the European Parliament may result in an additional 2 per cent increase in production quotas from April 2008.

An increase in the quota does not necessarily mean that milk production in the European Union will rise by the full quota. The United Kingdom (for example) is expected to produce below quota over the next few years as some dairy farmers have left the industry. In addition, the lack of flexibility

in the quota increase — which will be shared equally among all EU member states, regardless of their ability to make use of them — is likely to result in EU milk production falling short of production quota targets in some years.

Another element of recent CAP reform — the single farm payment — is also expected to have an ongoing effect on dairy production in the European Union. The decoupling of farm support from production levels has contributed to the EU dairy sector becoming more responsive to market price signals and has brought dairy supplies more in line with demand. The move to single farm payments is also expected to affect the mix of dairy production within the EU and shift the sector further toward the production of higher value products such as cheese. Production of bulk commodities such as milk powders (that compete for raw milk as an input) is expected to decline over the outlook period.

australian dairy industry recovering from drought — rebuilding production and profitability

Widespread drought across Australia's major dairying regions in 2006 and 2007 has challenged the financial viability of many dairy farms. Reduced rainfall and lower allocations of irrigation water has left many dairies unable to meet their feed and fodder requirements from pasture and crops grown on farm, while also raising the price of bought-in feeds. The consequent sharp increase in costs severely affected dairy farmers' incomes, so that many dairy farms had to dry off cows to reduce their feed intake or reduce cow numbers. Looking ahead, the ability of dairy farmers to recover quickly from drought will depend largely on the financial situation of individual farmers, the availability of irrigation water and the ability of farmers to rebuild milking cow numbers.

Assuming average seasonal conditions, the prospects for a recovery in Australian dairy production are promising. Constrained growth in export supplies and strong global demand for dairy products are expected to result in farmgate milk prices remaining high in real terms over the outlook period. This will provide an incentive for dairy farmers to rebuild their herds and increase production capacity. Furthermore, when the positive impacts from past investments in new technologies and plant and equipment by dairy farmers are combined with higher farmgate milk prices the prospects for recovery from drought look positive.

While good rains in late 2007 and early 2008 have been helpful, uncertainty remains about the possibility and timing of increased allocations of irrigation water in the southern Murray Darling Basin, and the availability and price of fodder. These factors will affect the pace at which the dairy herd is rebuilt and have a big impact on the financial performance of dairy farms over the outlook period. It is also possible that there could be further rationalisation within the dairy industry following the drought, particularly among farms with low equity and high debt servicing requirements.

australian farmgate milk prices to remain relatively high

After averaging around 45 cents a litre in 2007-08, Australian farmgate milk prices are forecast to rise by a further 20 per cent to 54 cents a litre in 2008-09. The forecast of relatively high farmgate milk prices reflects both the prices needed by dairy farmers to cover the high cost of feed and other inputs (such as purchased irrigation water entitlements) and the ability of the dairy industry to benefit from strong world prices for dairy products.

Over the remainder of the outlook period, farmgate prices are projected to remain relatively high, before falling to around 51 cents a litre (in 2007-08 dollars) in 2012-13 as product prices in global markets decline in real terms. Such a price would be about 13 per cent higher than the estimated farmgate return in 2007-08.

australian production down in 2007-08 but recovering in 2008-09

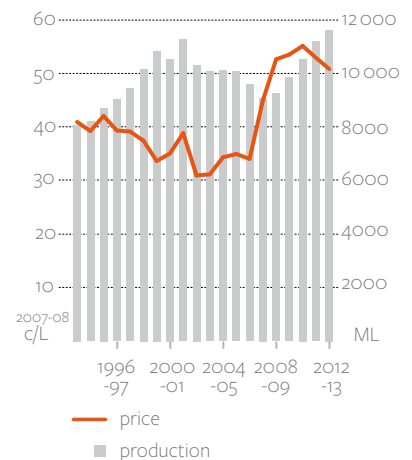
Reflecting the widespread drying off of cows and herd reductions in some regions in response to drought, Australian milk production is estimated to have fallen by more than 5 per cent in 2007-08, to around 9.1 billion litres. In 2008-09, Australian milk production is forecast to begin to recover, rising by almost 2 per cent to around 9.25 billion litres.

With an assumed return to average seasonal conditions, Australian milk production is projected to recover over the outlook period, increasing by around 28 per cent from 2007-08 lows to around 11.6 billion litres in 2012-13. The trend toward fewer, larger dairy farms and new investment is expected to result in the growth of Australia's dairy herd and increased milk yield per cow over the medium term.

Increased investment and greater efficiency (together with assumed average seasonal conditions) as farmers respond to prospects of good returns are expected to be the main factors returning milk production to pre-drought levels of more than 11 billion litres a year by the end of the outlook period. Australia's dairy herd is projected to increase by 18 per cent and milk yields by around 7 per cent between 2008-09 and 2012-13.

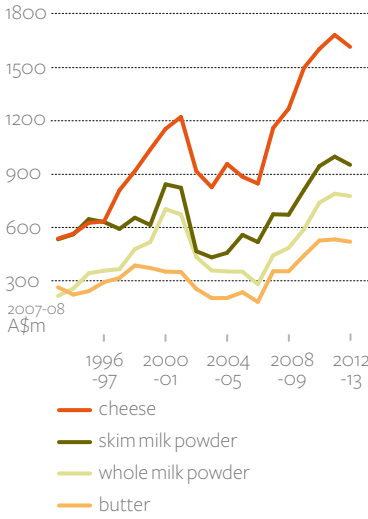
Over the outlook period, changes in Australia's dairy product mix and total output will be driven by changes in relative returns from the various manufactured products. For example, cheese prices are projected to be relatively firm compared with prices of other dairy products. Prices for milk powders may also be affected by developments in the cheese market, as cheese production uses milk that would otherwise go to milk powder production.

australian milk



dairy

australian dairy product exports



Because of the relatively attractive prices expected to prevail for cheese and milk powders over the next few years, these two products are likely to account for an increased proportion of manufactured dairy product output and Australian dairy exports over the outlook period.

australian export returns to rise as production recovers slowly

Despite an expected softening of world dairy product prices in 2008-09, increased export volumes are forecast to result in the total value of Australian dairy product exports rising by 7 per cent to \$3.8 billion for the year. The total value of dairy exports is forecast to continue to rise over the outlook period — reflecting rising production, increasing exports and relatively high world prices — to reach around \$4.6 billion (in 2007-08 dollars) in 2012-13.