Commodity outlook and financial performance of key agricultural industries in the northern Australia pastoral zone

Alice Springs, Northern Territory

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Contents
Regional overview .......................................................................................................................... 1
Agriculture sector profile ............................................................................................................. 1
Number and type of farms .......................................................................................................... 2
Employment .................................................................................................................................. 3
Agriculture sector performance ................................................................................................. 5
Farm financial performance ....................................................................................................... 5
Farm performance—Alice Springs District ............................................................................... 9
Outlook for selected commodities .......................................................................................... 11
Beef and veal ............................................................................................................................. 11
Live cattle trade .......................................................................................................................... 14
Welfare assurances for livestock exports .............................................................................. 15
Challenges and opportunities for northern live cattle industry ........................................... 16
Horticulture ............................................................................................................................... 17

Tables
Table 1 Number of farms, by industry classification, 2009–10 .................................................... 2
Table 2 Financial performance, beef industry ......................................................................... 8
Table 3 Financial performance, Alice Springs District broadacre industries .......................... 10

Figures
Figure 1 Value of agricultural production, northern Australia pastoral zone, 2009–10 ........ 2
Figure 2 Distribution of farms, by estimated value of agricultural operations, northern
Australia pastoral zone, 2009–10 .............................................................................................. 3
Figure 3 Employment profile, northern Australia pastoral zone, 2006 Census ....................... 4
Figure 4 Employment profile, Northern Territory, February 2012 ........................................ 4
Figure 5 Real farm cash income, beef industry ......................................................................... 7
Figure 6 Real total cash receipts, Alice Springs District broadacre farms .............................. 9
Figure 7 Real farm cash income, Alice Springs District broadacre farms ................................ 10
Figure 8 Australian cattle slaughter and prices ....................................................................... 11
Figure 9 Australian beef cattle numbers .................................................................................... 12
Figure 10 Australian beef exports, by destination .................................................................. 12
Figure 11 Australian live feeder/slaughter cattle exports ....................................................... 15
Regional overview

This paper provides an overview of the northern Australian agriculture sector, the recent financial performance of the beef industry in northern Australia and a discussion on the outlook for other some key agricultural commodities produced in the region.

The agricultural sector overview is based on Australian Bureau of Statistics (ABS) data for the northern Australia pastoral zone, outlined in Map 1. The region extends from Karratha in the Pilbara region of Western Australia to around Barcaldine (east of Longreach) in central Queensland and from the South Australian border to Darwin.

Map 1 Northern Australia pastoral zone

Source: Australian Bureau of Statistics.

Agriculture sector profile

The gross value of agricultural production in the northern Australian pastoral zone in 2009–10 was $1688 million. This is the most recent year for which ABS data were available.

Cattle and calves was by far the most important agricultural product, accounting for 87 per cent ($1474 million) of the total value of agricultural production in 2009–10 (Figure 1). Wool and vegetables each accounted for a further 3 per cent ($47 million and $43 million, respectively). Mangoes—mostly from the Northern Territory—accounted for an additional 2 per cent ($36 million).
Commodity outlook and financial performance of key agricultural industries in the northern Australia pastoral zone

Figure 1 Value of agricultural production, northern Australia pastoral zone, 2009–10

Source: Australian Bureau of Statistics.

Number and type of farms

In 2009–10, 1,696 farms in the northern Australia pastoral zone had an estimated value of agricultural operations of more than $5000 according to ABS data (Table 1).

Farms are classified in Table 1 according to the activities that generated the largest proportion of the value of production of the farm business. In the northern Australia pastoral zone, beef cattle farms were the most common farm type in 2009–10, accounting for 68 per cent of the total number of farms. The second most common farm type was fruit and tree nut farms, accounting for about 12 per cent of farms, followed by sheep–beef farms, which accounted for about 9 per cent of all farms in the region.

Table 1 Number of farms, by industry classification, 2009–10

<table>
<thead>
<tr>
<th>Industry Classification</th>
<th>Northern Australia pastoral zone</th>
<th></th>
<th>Northern Territory</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>no.</td>
<td>%</td>
<td>no.</td>
</tr>
<tr>
<td>Beef cattle</td>
<td>1153</td>
<td>68</td>
<td>201</td>
</tr>
<tr>
<td>Fruit and tree nut growing</td>
<td>198</td>
<td>12</td>
<td>157</td>
</tr>
<tr>
<td>Sheep-beef</td>
<td>159</td>
<td>9</td>
<td>1</td>
</tr>
<tr>
<td>Sheep</td>
<td>68</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td>Vegetables</td>
<td>52</td>
<td>3</td>
<td>32</td>
</tr>
<tr>
<td>Nurseries</td>
<td>12</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td>Horses, beekeeping and other livestock</td>
<td>11</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>Other</td>
<td>45</td>
<td>3</td>
<td>29</td>
</tr>
<tr>
<td>Total agriculture</td>
<td>1696</td>
<td>100</td>
<td>437</td>
</tr>
</tbody>
</table>

Note: For farms where the estimated value of agricultural operations is more than $5000.
Source: Australian Bureau of Statistics.
As in most parts of Australia, a large proportion of farms in the region are relatively small in terms of estimated value of agricultural operations (EVAO). EVAO is used as an indicator of the extent of agricultural activity. Around 34 per cent of farms in the northern Australia pastoral zone had an EVAO of less than $200 000 (Figure 2). These farms accounted for about 3 per cent of the total value of agricultural operations in 2009–10. In comparison, 25 per cent of farms in the northern Australia pastoral zone had an EVAO of $1 million and above, and these farms accounted for an estimated 65 per cent of the zone’s total value of agricultural operations. These larger farms are mainly beef cattle properties.

**Figure 2 Distribution of farms, by estimated value of agricultural operations, northern Australia pastoral zone, 2009–10**

Data source: Australian Bureau of Statistics.

### Employment

The ABS 2006 Census indicates that around 142 800 people were employed in the northern Australia pastoral zone. The public administration and safety industry employed the largest number of people, with around 16 per cent (23 500 people) of the total labour force (Figure 3). The mining industry employed 15 700 people, accounting for 11 per cent, followed by the health care and social assistance industry (13 300 people, accounting for 9 per cent). The retail trade industry, education and training industry, and the construction industry each accounted for a further 8 per cent (11 800 people, 11 400 people and 11 100 people respectively) of the total labour force.

Agriculture, forestry and fishing employed about 6000 people, accounting for 4 per cent of the northern Australia pastoral zone’s total labour force in 2006.
More recent data for February 2012 indicate that around 122,500 people were employed in the Northern Territory. The public administration and safety industry employed the largest number of people, with approximately 180,000 people, accounting for 15 per cent of the territory’s total labour force (Figure 4). The health care and social assistance industry employed about 14,100 people (12 per cent) and the construction industry employed about 13,400 people (11 per cent) of the total labour force. The retail trade industry and the education and training industry each employed a further 10,900 people (9 per cent).

Agriculture, forestry and fishing employed about 2,600 people, accounting for 2 per cent of the total territory labour force.
Agriculture sector performance

Northern Australia pastoral zone beef industry

In 2009–10, the northern Australia pastoral zone accounted for 27 per cent of the Australian beef cattle herd and 15 per cent of the value of beef cattle production in Australia.

According to the ABS, beef cattle numbers in the northern Australian pastoral zone increased by 16 per cent from 5.5 million in 2001 to 6.4 million in 2010. The increase in cattle numbers over the period was due to factors such as increased live cattle export demand, substantial increases in herd productivity and generally favourable seasonal conditions.

Beef producers’ reliance on the live cattle export trade varies across regions in northern Australia. On average, beef producers in the upper half of the Northern Territory as well as the Kimberley, Pilbara and Gascoyne regions of Western Australia received more than 50 per cent of their farm receipts from sale of cattle for live export in the three years ending 2009–10. Live cattle exports are discussed later in this paper (ABARES 2011).

Farm financial performance

Each year ABARES interviews Australian broadacre producers as part of its annual survey program. Broadacre industries covered in this survey include the grains, grains–livestock, sheep, beef and sheep–beef industries. The information collected provides the basis for analysing the current financial position of farmers in these industries and expected changes in the short term.

This paper uses data from the ABARES Australian Agricultural and Grazing Industries Survey to provide estimates of financial performance indicators (Box 1) for farms in Australia, and in the northern Australian pastoral zone (Map 2). The broadacre category in the northern Australia pastoral zone is dominated by farms that mainly depend on beef cattle.

Map 2 Northern Australia pastoral zone

Source: ABARES.
Box 1 Major financial performance indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total cash receipts</td>
<td>Total revenues received by the business during the financial year.</td>
</tr>
<tr>
<td>Total cash costs</td>
<td>Payments made by the business for materials and services and for permanent and casual hired labour (excluding owner manager, partner and family labour).</td>
</tr>
<tr>
<td>Farm cash income</td>
<td>Total cash receipts – total cash costs</td>
</tr>
<tr>
<td>Farm business profit</td>
<td>Farm cash income + changes in trading stocks – depreciation – imputed labour costs</td>
</tr>
<tr>
<td>Profit at full equity</td>
<td>Return produced by all the resources used in the business.</td>
</tr>
<tr>
<td>Farm business profit + rent + interest + finance lease payments – depreciation on leased items</td>
<td>Profit at full equity / total opening capital x 100</td>
</tr>
<tr>
<td>Rate of return</td>
<td>Return to all capital used</td>
</tr>
</tbody>
</table>

**Australian beef industry**

In 2010–11, beef cattle turn-off slowed in the eastern states and beef cattle numbers increased. In the Northern Territory herd numbers remained relatively stable despite an increase in turn-off, and in Western Australia cattle numbers decreased as dry conditions resulted in higher turn-off. Overall, the average number of cattle that beef industry farms sold remained similar to 2009–10, but increases in prices received for cattle resulted in total cash receipts for beef industry farms rising by around 8 per cent. Although expenditure on beef cattle purchases increased, total cash costs were reduced on average, due mainly to improved seasonal conditions leading to a reduction in expenditure on fodder. Overall, with total cash receipts increasing and total cash costs decreasing, farm cash income increased to average $59 100 per farm for beef industry farms in 2010–11 (Table 2).

In 2011–12, the average number of cattle that Australian beef industry farms are expected to sell is projected to be slightly reduced and although average sale prices are expected to be higher (partly resulting from sale of heavier cattle) on average, beef cattle receipts are projected to fall by around 2 per cent. An increase in cattle numbers in the past two years, particularly in northern Australia, together with the high cattle prices is projected to result in a marked reduction in the number of cattle that beef industry farms purchase and a sharp reduction in cattle purchase expenditure.

Lower expenditure on beef cattle purchases, together with reduced expenditure on fodder and interest payments is projected to result in average total cash costs for beef industry farms declining by around 10 per cent. With only a small reduction in cash receipts and much larger reduction in cash costs, average farm cash income is projected to increased to average $67 000 per farm in 2011–12 (Table 2). If achieved, this would be around 6 per cent above the average for the previous 10 years.

**Northern Australia pastoral zone**

Historically, average farm cash incomes for beef industry farms in the northern Australia pastoral zone have been higher than the average for the whole of Australia (Figure 5). In part, this is a consequence of the much larger average herd size of farms in the northern Australia pastoral zone compared with those in the rest of Australia.

Since 2002–03, there has been a pronounced variability of average annual farm cash income in the Northern Territory (Figure 5). Increased variability in farm cash incomes over this period appears to have been largely caused by increased cattle transfer activity between corporate group properties in the Northern Territory and other states, in response to dry seasonal...
conditions. In particular, additional cattle were moved onto properties in the upper Northern Territory in 2002–03 and 2006–07 in response to drier conditions in Queensland and subsequently large numbers were then either sold or transferred out in 2007–08. Despite this increased variability, average farm cash income and rates of return over the decade to 2011–12 have been relatively high.

Figure 5 Real farm cash income, beef industry
average per farm

![Graph showing real farm cash income from 2002-03 to 2014-15 for Australia, Northern Territory, and Northern Australia pastoral zone.]

Note: p Preliminary estimate. y Provisional estimate.
Source: Australian Agricultural and Grazing Industries Survey.

Following an increase in beef cattle numbers in the northern Australia pastoral zone in 2007–08 and 2009–10, beef cattle turn-off increased in 2010–11. When combined with higher prices received for cattle this resulted in total cash receipts increasing by 24 per cent to $759 300 per farm in 2010–11 (Table 2). Higher receipts led to average farm cash income increasing to $161 900 per farm in 2010–11, well above the previous year, but still below the 10-year average of $209 000 per farm.

In 2011–12, average farm cash income for beef industry farms in the northern Australia pastoral zone is projected to decrease to average $108 000 per farm (Table 2, Figure 5), around 43 per cent below the average farm cash income for the 10 years to 2010–11. Average receipts for beef cattle are projected to decline in 2011–12 largely because of reduced cattle sales. Average farm cash costs are also estimated to be lower in 2011–12 reflecting an expected reduction in beef cattle purchases together with reduced transfers of cattle onto corporately owned properties.
Table 2 Financial performance, beef industry

average per farm

<table>
<thead>
<tr>
<th>Receipts</th>
<th>2009-10</th>
<th>2010-11 p</th>
<th>2011-12 y</th>
<th>2009-10</th>
<th>2010-11 p</th>
<th>2011-12 y</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beef cattle sales</td>
<td>$386,410</td>
<td>545,000</td>
<td>(10)</td>
<td>479,000</td>
<td>188,740</td>
<td>203,600</td>
</tr>
<tr>
<td><strong>Total cash receipts</strong></td>
<td>$613,190</td>
<td>759,300</td>
<td>(11)</td>
<td>679,000</td>
<td>249,950</td>
<td>269,600</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Costs</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Beef cattle purchases</td>
<td>$61,260</td>
<td>74,900</td>
<td>(26)</td>
<td>63,000</td>
<td>33,960</td>
<td>37,100</td>
</tr>
<tr>
<td>Fodder</td>
<td>$52,770</td>
<td>29,000</td>
<td>(10)</td>
<td>29,000</td>
<td>17,800</td>
<td>12,400</td>
</tr>
<tr>
<td>Fuel oil and grease</td>
<td>$40,010</td>
<td>37,500</td>
<td>(8)</td>
<td>36,000</td>
<td>12,410</td>
<td>11,400</td>
</tr>
<tr>
<td>Repairs and maintenance</td>
<td>$47,190</td>
<td>47,500</td>
<td>(7)</td>
<td>52,000</td>
<td>18,370</td>
<td>18,200</td>
</tr>
<tr>
<td>Interest paid</td>
<td>$63,740</td>
<td>70,100</td>
<td>(18)</td>
<td>68,000</td>
<td>24,640</td>
<td>25,000</td>
</tr>
<tr>
<td>Wages for hired labour</td>
<td>$55,850</td>
<td>52,200</td>
<td>(13)</td>
<td>50,000</td>
<td>11,550</td>
<td>10,500</td>
</tr>
<tr>
<td><strong>Total cash costs</strong></td>
<td>$647,300</td>
<td>597,400</td>
<td>(17)</td>
<td>570,000</td>
<td>215,150</td>
<td>210,500</td>
</tr>
</tbody>
</table>

**Financial performance**

| Farm cash income             | $34,100 | 161,900   | (40)      | 108,000 | 34,800    | 59,100    |
| Farms with negative farm cash income | % 45 | 37 | (18) | 37 | 30 | 29 |
| Farm business profit         | $27,690 | 114,300   | (28)      | 180,000 | -16,680   | 9,500     |

**Rate of return**

- excl. capital appreciation | % 1.1 | 2.1 | (16) | 4.8 | 0.3 | 0.9 |
- incl. capital appreciation | % -0.2 | -3.3 | (27) | na | 0.0 | -1.2 |

**Farm capital, debt and equity**

| Farm capital at 30 June a    | $9,072,870 | 8,708,500 | (7) | na | 4,239,810 | 407,4900 |
| Farm business debt at 30 June b | $937,970 | 948,700   | (21) | 976,000 | 350,300 | 333,500 |
| Equity ratio at 30 June bc   | % 86      | 86        | (2) | na | 91        | 91       |

Note: Figures in parentheses are standard errors expressed as a percentage of the estimate provided. a Excludes leased plant and equipment. b Average per responding farm. c Equity expressed as a percentage of farm capital. p Preliminary estimate. y Provisional estimate. na Not available.
Farm performance—Alice Springs District

The Alice Springs District climate is arid and does not require tropically adapted cattle. Producers tend to have a high proportion of *bos taurus* breeds and mainly turn off cattle for the domestic market. Over the past decade beef receipts have accounted for around 88 per cent of the total cash receipts for broadacre farms in the district (Figure 6).

Figure 6 Real total cash receipts, Alice Springs District broadacre farms

![Graph showing cash receipts](image)

average per farm

Note: p Preliminary estimate. y Provisional estimate.

Source: Australian Agricultural and Grazing Industries Survey.

In response to a number of dry seasons, particularly in 2007–08, producers in the Alice Springs District significantly reduced cattle numbers. In 2008–09 and 2009–10, farm cash incomes in the district remained low because of reduced cattle turn-off as cattle numbers were rebuilt (Figure 7). A large proportion of farm businesses in the district are family operated and herd rebuilding is mainly undertaken through natural increase together with some purchase. Consequently the time needed to rebuild cattle numbers after a reduction tend to be longer than in some other regions of the territory where a high proportion of corporately owned properties often transfer cattle from interstate properties to rebuild herds.

In 2010–11, a small increase in the number of cattle sold combined with significantly higher saleyard prices resulted in a large increase in beef receipts. Total cash receipts in the region increased by around 36 per cent compared with 2009–10 (Table 3). Total cash costs increased mainly due to higher expenditure on repairs, interest payments and hired labour. Overall, farm cash income for broadacre farms in the Alice Springs District increased to average $255 100 per farm in 2010–11 (Figure 7).

In 2011–12, cash receipts from the sale of beef cattle are projected to increase further due to a large increase in the number of cattle sold and slightly higher prices. Total cash receipts are projected to increase by 32 per cent to around $1.5 million per farm (Table 3). At the same time, average total cash costs for the district are projected by to increase by 14 per cent to $999 000 per farm because of increased expenditure on interest payments, repairs and fuel (Table 3).
Overall, the increase in projected total cash receipts is expected to more than offset a rise in total cash costs and result in the average farm cash income for broadacre farms in the Alice Springs District increasing to $497 000 per farm in 2011–12, or around 34 per cent higher than the average for the 10 years to 2010–11.

Table 3 Financial performance, Alice Springs District broadacre industries

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Beef cattle sales</td>
<td>$669 700</td>
<td>941 500</td>
<td>(15) 1 257 000</td>
</tr>
<tr>
<td>Total cash receipts</td>
<td>$829 940</td>
<td>1 130 200</td>
<td>(18) 1 497 000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Costs</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total cash costs</td>
<td>$786 120</td>
<td>875 100</td>
<td>(20) 999 000</td>
</tr>
</tbody>
</table>

Financial performance

| Farm cash income                | $43 820 | 255 100   | (31) 497 000 |
| Farms with negative farm cash income | %   | 47 16 (77) 0 |
| Farm business profit            | $–148 430| 295 200   | (39) 344 000 |
| Farms with negative farm business profit | % | 43 22 (58) 24 |

Rate of return

– excluding capital appreciation | %  | 0.5 3.6 (33) 4.1 |
– including capital appreciation | %  | 3.1 3.8 (47) na |

Farm capital, debt and equity

| Farm capital at 30 June a        | $9 239 810| 12 067 500 | (14) na |
| Farm debt at 30 June bc          | $1 149 030| 1 584 900  | (30) 1 566 000 |
| Equity ratio at 30 June bd       | % 85 86 (3) na |

Note: Figures in parentheses are standard errors expressed as a percentage of the estimate provided. a Excludes leased plant and equipment. b Average per responding farm. c Harvest loans are not included in farm debt. d Equity expressed as a percentage of farm capital. p Preliminary estimate. y Provisional estimate. na Not available.

Source: Australian Agricultural and Grazing Industries Survey.
Outlook for selected commodities

Beef and veal

The Australian weighted average saleyard price for beef cattle is forecast to fall by 2 per cent in 2012–13 to 325 cents a kilogram (Figure 8). While young cattle prices are expected to remain relatively high in 2012–13, prices of other categories of cattle are forecast to average lower, for several reasons. First, higher forecast slaughter and production is expected to put downward pressure on the weighted average price of slaughter cattle. Second, average export unit returns are forecast to decline, putting downward pressure on saleyard prices for slaughter cattle, as shipments of lower valued frozen cuts are forecast to increase more than higher valued chilled beef exports.

In northern Australia, prices for light steers and heifers are forecast to decline in 2012–13. This forecast fall reflects the announced reduction in the Indonesian Government’s live cattle import quota from 500 000 head in 2011 to 283 000 head in 2012, which may result in cattle suitable for export to Indonesia being redirected to domestic or other markets where this is feasible. However, it is possible that the quota may increase during the course of 2012, which would reduce the downward pressure on prices.

Herd numbers to rise

The Australian beef cattle herd is forecast to increase by 5 per cent in 2011–12 to 27.6 million head, before rising a further 4 per cent in 2012–13 to 28.8 million head (Figure 9). This forecast takes into account the preliminary estimate of herd numbers at the end of 2010–11 released by the ABS on 2 December 2011. The ABS estimates that beef cattle numbers rose by 9 per cent year-on-year to 26.2 million head as at 30 June 2011.

Since 2009–10, improved seasonal conditions have resulted in significant pasture growth in most cattle producing regions. This has encouraged producers in most states to retain female cattle for herd rebuilding. Herd growth in 2010–11 was highest in South Australia (27 per cent year-on-year), followed by Victoria (16 per cent), Queensland (13 per cent) and New South Wales (8 per cent). Retention of female cattle is expected to continue into 2012–13, particularly
in the southern part of Western Australia where the proportion of females in the total slaughter declined considerably in the second half of 2011.

Figure 9 Australian beef cattle numbers

![Australian beef cattle numbers](image)

**Slaughter and production**

Beef cattle slaughter is forecast to fall by 2 per cent in 2011–12 to 7.9 million head, before increasing to 8.1 million head in 2012–13. In the short-term, beef cattle slaughter is forecast to remain lower than the average recorded over the past 10 years. Beef and veal production is forecast to increase by 1 per cent in 2011–12 to 2.1 million tonnes and a further 2 per cent in 2012–13 to 2.2 million tonnes. In the short term, production is expected to grow more quickly than slaughter because of the high proportion of adult males in the total turn-off, resulting in higher average carcass weights.

**Exports to rise**

The Australian cattle industry is highly reliant on overseas trade, with nearly two-thirds of its production exported. As such, export demand for beef is an important driver of the direction for the industry. The volume of exports is forecast to rise by 2 per cent in 2011–12 to 955 000 tonnes (shipped weight) and an additional 2 per cent in 2012–13 to 970 000 tonnes (Figure 10).

Figure 10 Australian beef exports, by destination

![Australian beef exports, by destination](image)
Exports to the United States to grow

Australian beef exports to the United States are forecast to rise by 6 per cent in 2011–12 to 170 000 tonnes (shipped weight), before increasing a further 6 per cent in 2012–13 to 180 000 tonnes. In its February market report, the United States Department of Agriculture forecast US beef production to fall and exports to remain high, resulting in a lower supply of beef for the US domestic market. As a result, Australian beef exports to that market are expected to rise in 2012–13.

Drought conditions continue to prevail in many southern United States beef producing regions. High feed costs significantly lowered producer returns despite relatively high cattle prices. In response, producers increased slaughter with a higher proportion of younger cattle.

The US cattle herd is currently around 90.8 million head, the lowest since 1958. Reduced calf numbers and feeder cattle placements, and disproportionally large cow and bull slaughter is expected to lead to a further decline in the herd in 2012–13. Over the medium-term, herd rebuilding depends on seasonal conditions and could take several years before sufficient breeding stock is replenished. As a result, US import demand for beef is likely to increase in the next several years.

Despite a positive outlook for US beef imports, Australian beef exporters are likely to continue to encounter strong competition from other exporters such as Canada, which has a freight cost advantage, and Mexico, which also has lower production costs. Since 2008–09, Canada’s share in the US beef import market has risen from 30 per cent to 35 per cent, while Mexico’s share has increased from 2 per cent to 8 per cent.

Increased US beef in Japan

Australian beef exports to Japan are forecast to fall by 4 per cent in 2011–12 to 338 000 tonnes (shipped weight), and a further 2 per cent to 330 000 tonnes in 2012–13. While Japan’s total beef imports are expected to rise in 2011–12, most of this increase is expected to be sourced from the United States. Aided by a relatively competitive exchange rate, US beef is expected to continue to displace beef from other major suppliers, including Australia, Canada and New Zealand, in the Japanese market.

Japan’s total beef imports grew by 4000 tonnes year-on-year in the nine months to March 2012 to 392 000 tonnes. Over the same period, imports of US beef grew by 15 000 tonnes to 94 000 tonnes, mostly comprising chilled beef. By comparison, Japanese imports of Australian beef fell by 9000 tonnes to 254 000 tonnes, with chilled beef falling by 17 000 tonnes but frozen beef rising by 8000 tonnes. The share of imported beef from Australia that was grain-fed fell to 41 per cent over this period, from an average of 46 per cent in 2010–11, as a result of strong competition from marbled US beef.

Since 2005, the Japanese Government has banned imports of US beef from cattle over 20 months of age, and required removal of all bone marrow, spinal cords, brains and vertebrae. In late 2011, Japan’s Ministry of Health, Labour and Welfare proposed easing these restrictions. A review of the restrictions has since commenced, and the Japanese Food Safety Commission is conducting risk assessments of beef imports from the United States, Canada and several European countries.

Greater competition in the Republic of Korea

Australian beef exports to the Republic of Korea are forecast to rise by 5 per cent in 2011–12 to 145 000 tonnes (shipped weight), before falling by 2 per cent in 2012–13 to 142 000 tonnes as
Commodity outlook and financial performance of key agricultural industries in the northern Australia pastoral zone

ABARES

competition from US beef increases, aided by a competitive US exchange rate. Imports of beef by the Republic of Korea have grown steadily in recent years in response to growing per person beef consumption, and substantially higher pig meat prices which arose following a cull of domestic pigs infected by foot-and-mouth disease. In the short-term, total Korean beef imports are expected to rise, with Australia remaining the largest supplier but by a smaller margin to other suppliers.

Over the medium-term, Australian beef exports to the Republic of Korea are projected to decline as Australian beef faces greater competition from the United States and Canada. In late 2011 the Korea–US Free Trade Agreement was ratified. As a result, the current 40 per cent tariff applied to all beef imports will be phased out for US beef by 2.7 per cent a year over the next 15 years. Competition for Australian exports with Canadian beef will also increase because the Korean Government lifted its ban on imports of Canadian beef in January 2012.

Exports to emerging markets increasingly important

Australian beef exports to emerging markets are forecast to increase by 6 per cent in 2011–12 to 302 000 tonnes and a further 5 per cent in 2012–13. Exports to ASEAN nations (excluding Indonesia) are forecast to grow on account of relatively high income growth and growing demand for beef. Shipments to the Middle East are also expected to increase given the rising demand for packaged beef, as opposed to freshly slaughtered beef from live cattle imports. The Indonesian Government has moved to limit total beef imports from all sources to 34 000 tonnes in 2012, down from 72 000 tonnes in 2011. Australian beef exports to Indonesia are expected to fall by 16 per cent to 38 000 tonnes in 2011–12, before declining a further 20 per cent in 2012–13 to 30 000 tonnes.

Live cattle trade

A major factor behind expansion of the northern Australian cattle industry over the past two decades has been development of the Indonesian market for live feeder cattle. Live exports became a significant trade for the northern Australian beef industry in the early to mid 1990s, encouraged by a growing feedlot industry in South-East Asia, particularly Indonesia. From around 95 000 head in 1998–99 (12 per cent of live exports), exports to Indonesia peaked at close to 700 000 head in 2008–09 (83 per cent of live cattle exported) and 2009–10 (80 per cent) (Figure 11). Enforcement of a 350-kilogram weight limit, and imposition of an import quota by the Indonesian Government, as part of its Blueprint on beef self sufficiency program 2014, contributed to exports falling in 2010–11 to 456 000 head.

The Indonesian Government’s beef self sufficiency drive is likely to prevent shipments of live cattle to Indonesia returning to the highs achieved in 2008–09 and 2009–10. In December 2010, the Indonesian Government imposed a limit of 500 000 head of cattle to be imported from Australia during 2011 and a stricter enforcement of the 350-kilogram weight limit of imported cattle. The quota was further reduced with the announcement in December 2011 that Indonesia would import only 283 000 head of cattle during 2012, 217 000 lower than in 2011. Australian live cattle exports to Indonesia in 2011–12 are estimated to be around 330 000 head, 29 per cent lower than in 2010–11.

In the short term, it is unlikely that a significant number of cattle originally intended for export to Indonesia can be redirected to other markets, such as the Middle East or Turkey. In 2010–11, all cattle exported to Turkey, Israel, Saudi Arabia and the Russian Federation were sourced from southern Australian ports, indicating a preference for bos taurus cattle rather than the bos indicus breeds of northern Australia. Additionally, many of these markets generally import cattle
Commodity outlook and financial performance of key agricultural industries in the northern Australia pastoral zone

from Australia that are close to slaughter weight because they lack large-scale feedlot infrastructure for finishing cattle before slaughter. The currencies of Turkey, Israel, Saudi Arabia and the Russian Federation have depreciated against the Australian dollar by an average of 8 per cent over the past year, making Australian cattle relatively more expensive in those markets. Cattle exports to Egypt were banned in 2006–07 as a result of animal welfare concerns. The trade resumed in 2009–10 through a single closed-loop facility—an integrated port, feedlot and abattoir—at the Port of Sokhna. The opening of a second closed-loop facility in Egypt in late 2011 is expected to lead to increased exports to that market.

A limited number of cattle may be redirected to other South-East Asian markets such as Malaysia, the Philippines and possibly Vietnam and Brunei Darussalam. In the past, these markets have sourced Australian cattle from northern ports. Both the Philippines and Malaysia were once large markets for Australian cattle, but depreciations in their currencies in the early 2000s and associated rising beef prices, resulted in reduced demand for Australian cattle. They remain price sensitive markets so exports to these markets may need to compete with Indian buffalo meat and Latin American beef imports.

Growth in live cattle exports over the medium term will depend on development of new markets for northern Australian cattle, particularly if the Indonesian Government strictly enforces its import restrictions. Over the past decade, the number of cattle exported from northern Australian ports to markets other than Indonesia fell from 293 000 head in 2001–02 to 76 000 head in 2010–11.

Welfare assurances for livestock exports

On 8 June 2011, in response to the airing of footage taken by animal welfare activists of animal cruelty in a number of Indonesian abattoirs, the Minister for Agriculture, Fisheries and Forestry, Senator the Hon. Joe Ludwig, announced the suspension of export to Indonesia of all livestock for the purpose of slaughter. On 6 July 2011, the Minister lifted the suspension and issued revised export control orders allowing export of livestock to Indonesia only where animals could be managed through supply chains that meet agreed OIE (World Organisation for Animal Health) standards. Export permits are now only to be issued when an exporter can assure the government it can meet these agreed standards. An independent audit of the supply chain is needed to support this claim and audit reports are to be made public. If an exporter is found to
have used any part of a supply chain that does not meet OIE standards, the Australian Government can revoke the exporter’s licence.

On 21 October 2011, the minister announced the government’s response to the Independent Review into Australia’s Livestock Export Trade (the Farmer Review). It included 14 recommendations relating to future regulation of the live animal export industry, of which the government has agreed, or agreed in principle, to all. Of the six recommendations affecting overseas parts of the supply chain, the most significant relates to how the government can ensure ongoing viability of the trade. In response to a need to ‘set out a clear statement of its intended policy and operational approaches to the live export industry’, the Australian Government has extended the new supply chain assurance regulations which apply to livestock exports to Indonesia to all markets and all species, to ensure all Australian livestock exported for feeder and slaughter purposes are treated at or above OIE standards. From 1 January 2013, all livestock exporters will need to make certain they can track and control movements of individual animals through their supply chains, and conduct independent audits of their supply chains to ensure compliance with these new regulations.

Challenges and opportunities for northern live cattle industry

Indonesia’s stated objective of achieving self-sufficiency in beef by 2014 has put immense pressure on the industry, particularly in the Northern Territory where producers in the northern regions of the Territory are highly reliant on the trade. The temporary suspension in June 2011 of live cattle exports to Indonesia highlighted the risks to this sector of maintaining such a large exposure to a single commodity and a single market.

The climatic conditions in northern Australia make it difficult to finish cattle for markets in one production year, as can be achieved in southern Australia. The beef industry in northern Australia faces challenges in terms of the natural endowments at its disposal—rainfall and temperature patterns and soils—which have resulted in production systems and scale of operations varying markedly from those in southern Australia. Cattle stocking rates are much lower than in the south and, to sustain economically viable herds, properties tend to be very large. Pastures have a limited growing season and man-made watering facilities are generally needed to supplement natural water supplies. As a result, development of the live feeder trade has suited northern producers. Farm businesses have geared production toward turning off younger stock to meet live export specifications (less than 350 kilograms), but producers must carry a larger proportion of breeding cows to ensure they have the required numbers of young cattle to trade. With the probable contraction in live feeder cattle exports, producers need to either fatten and finish cattle themselves or produce store cattle for finishing elsewhere. This will require a period of adjustment to restructure herds, which may also include cross-breeding to improve meat quality.

There are no northern meat processing facilities apart from those in coastal and south-east Queensland—far from producers in northern Western Australia, the Northern Territory and north-west and far north Queensland. Industry and government have recognised the need for successful operation of an abattoir in northern Australia to ensure alternative market options. Development of meat processing in northern Australia would provide opportunities for the cattle industry, but a number of factors will influence the capacity to establish viable meat processing facilities. These include:

- continuity of supply of stock—the relative amount of seasonal variation is extraordinarily high in tropical northern Australia where cattle can only be mustered during the dry months, heavily affecting the potential supply of animals throughout the year
• competitive access to markets—meat processing would only benefit the industry if markets could be found for beef produced and returns were sufficient to cover costs

• reliable source of skilled labour—the cattle industry struggles to attract and retain skilled staff and plant operators and a meat processing facility would likely find it equally difficult

• cost effective transport, energy supply and potable water—transport infrastructure is crucial for the location and viability of meat processing in northern Australia, both for stock coming in for processing and for product going to market. Reliable energy sources and a source of good potable water are required for any abattoir operation

• coordinated feed-on and livestock aggregation services—an abattoir development would increase the incentive for development of an agistment/backgrounding sector nearby and encourage value adding of cattle in areas where stock are now mostly shipped out either to the live export trade or to southern feedlots as stores.

Meat processing value-adding opportunities in northern Australia would also provide incentive to improve farm management practices, thus boosting on-farm productivity. This could include producers providing supplementary feed and forage crops to enable animals to maintain a steady growth rate, rather than a loss in weight over the dry season, therefore finishing cattle faster. Developing properties toward more intensive stand and graze systems, which may also be supported by mosaic irrigation for feed crops and forage, would provide an opportunity to extend the season for supply of suitable cattle by ensuring cattle are more accessible for a greater part of the year. Improving herds, either through animal selection or cross-breeding, also has the potential to boost farm productivity.

The CSIRO, with funding from the Northern Australia Sustainable Futures program, is currently studying the feasibility of establishing irrigated mosaic agriculture in northern Australia. This research will provide the northern beef industry with a better understanding of the effects of and practical guidance for establishing mosaic irrigation. Development of irrigated agriculture in northern Australia would provide opportunities, not only for improved pasture and fodder production, but also for diversifying into other high value cropping activities, such as horticulture. Such diversification would reduce risk by providing varied income sources.

With the trade in live feeder cattle to Indonesia set to decline, other countries could offer some opportunity to continue the, albeit reduced, trade in live cattle. The Philippines, Malaysia and Brunei Darussalam are established markets, as is Japan. As well, there is scope for Australia to develop a significant trade in breeding cattle and genetic material to Indonesia and other South-East Asian markets. Breeding cattle are subject to a different import protocol and are not included in the current 283 000 head feeder cattle quota.

Improved transport infrastructure, such as improved access to all-weather roads and bridges, is necessary to extend the seasonal production window and facilitate livestock movement. The Australian and state and territory governments are making a significant commitment to Australia’s transport infrastructure, investing nearly $37 billion nationwide over six years to 2013–14 under the COAG Nation Building Program. Projects underway in northern Australia will benefit the cattle industry and a potential meat processing sector (DIT 2009).

**Horticulture**

The Northern Territory Department of Resources estimates the total gross value of horticulture production in the territory in 2011–12 at $198 million, up 42 per cent from 2010–11. Horticulture provided around one-third of the total value of the territory’s rural and fisheries
production in 2011–12, made up of $160 million for fruit, $21 million for vegetables (mainly cucumbers, okra, snake beans and bitter melon) and $17 million for nursery, turf and cut flowers.

The main fruit crop in the Northern Territory is mangoes, with an estimated gross value of production of $80 million in 2011–12, up 76 per cent from 2010–11 due to improved seasonal conditions. The territory accounts for around one-quarter of Australian mango production and benefits from being able to supply fresh mangoes earlier in the season than the main producing regions in north Queensland.

Australian mango production is forecast to decline by 8 per cent in 2012–13, from the record 63 000 tonnes in 2011–12, as yields return to more normal levels (Figure 12). Reflecting expected lower production, mango prices are forecast to rise by around 10 per cent in 2012–13, following a decline of 17 per cent in 2011–12.

Figure 12 Mango production and grower price, Australia

References
