1-1-1994

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New lamb marketing opportunities

By Tim Marshall
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In summary, these changes are the removal of acquisition from the domestic market while retaining it for lambs destined for export, and the establishment of the Corporation as a single desk seller on the export market. This should result in increased domestic consumption of lamb, less reliance on lower priced export markets, a change in the type of lamb produced, and a reduction of imports of lamb from the Eastern States.

Reasons for the change
Under its Act the Meat Marketing Corporation was required to accept and market all lambs delivered to it. On average, Western Australia slaughters about 1.3 million lambs a year but consumes only about 600,000. The remaining lambs must be exported overseas each year.

At ruling prices paid to producers there are profitable export markets for somewhat less than the total number of lambs exported each year, and the remaining export lambs must be subsidised by the domestic market to prevent the Corporation operating at a loss.

This is known as cross subsidisation and, on average, adds about 40 cents per kilogram to the wholesale price of domestic lamb. In other words, the domestic price of lamb is inflated by the costs of cross subsidisation. In a normal year these costs are between $3-4 million.

There have been several changes in the State's lamb industry since the inception of the Lamb Marketing Board, the predecessor of the Corporation, in 1972. The main changes are as follows.

Domestic consumption
Annual consumption of lamb per head has fallen from about 19 kg to about 7 kg. Although domestic consumption in the Eastern States has also fallen, Western Australian consumption is still well below that of the other States. Many people consider that the inflated domestic price of lamb in Western Australia is a major reason for our lower domestic consumption.

Type of lamb produced
The State's major export markets for lamb prefer a light lean lamb such as a first cross Merino or in some cases a pure Merino-type carcase. This, through the pricing policies pursued through acquisition, has resulted in the Western Australian industry producing lighter, lean lamb than the other States, and has greatly reduced the production of second cross lambs, which are the stated preference of major retailers. Carcase weights of Western Australian lambs are well below the rest of Australia.

Interstate imports
In recent years, Western Australia has imported an average of 120,000 carcases a year. Although we import some lamb carcases during autumn and early winter, when local production is low, carcases are still imported during the spring flush.

Major importers cite quality and price as the main reasons for bringing lamb into the State. It costs about 35 cents per kilogram to freight carcase lamb from Victoria to Perth, which equates with the cost of cross subsidisation.
Domestic and export markets for lamb will require a range of carcass weights.

In its 1992 report the Lindsay Review Committee concluded that while there was no strong evidence that prices paid to producers in the Eastern States differed greatly from those paid in Western Australia, retail prices of lamb were higher in this State.

Production

Western Australian lamb production is concentrated in the spring, when lambs can be marketed straight off pasture at reasonable weights. This concentration is greater than in any other State. Evidence before the Lindsay Committee suggested that this effect had increased as a result of acquisition. The presence of a guaranteed price for lambs during the spring flush under the current marketing arrangements has made it attractive for farmers to produce at this time of year. Such a concentration of production in a few months presents significant marketing problems.

The future

Changes in marketing arrangements for lamb in Western Australia, and the removal of the costs of cross subsidisation on the domestic market, should see a reduction in the retail price of lamb without corresponding reductions in prices to producers. This should stimulate domestic consumption. An increase in domestic consumption of 2.5 kg per head would lift domestic sales by more than 200,000 carcases per year. Coupled with this is the opportunity to replace interstate imports of lamb with locally produced product. This could account for another 100,000 local carcases. Without the costs of cross subsidisation, opportunities will exist to export lamb to the Eastern States at certain times of the year. Overseas exports of lamb will probably decline to the level represented by profitable markets. This figure will be determined by demand from importing countries, supplies from other competing exporting countries, and ruling exchange rates. In the past year, demand from overseas buyers has been high and exchange rates low, so the export market was strong. In the long term, though, exports will possibly fall below previous levels unless producers are willing to accept lower prices for some export lamb. For these changes to happen the right type of lamb needs to be produced. Major retailers prefer a domestic lamb carcass in the weight range of 18 to 22 kg, though some have suggested even heavier carcases will be desirable, and have a fat score of 2 or 3. To produce these types of carcases care will need to be taken in breed selection and feeding regimes. Eastern States farmers are able to turn off regularly carcases meeting these specifications with existing breeds and there is no reason they cannot be produced here. There will still be a demand for lighter lambs for certain domestic markets. Export markets will also require a range of carcass weights.

Producers will also need to pay attention to marketing methods. Selling slaughter stock through saleyards is simple and convenient but it has its pitfalls. Prices can fluctuate widely from day to day and though it may be possible to put a reserve price on the stock, this can be inconvenient and has a cost. Several domestic lamb processors are already offering a weight and fat price schedule and some have expressed definite interest in writing forward contracts with producers for year-round supply.

In addition, the market for live export lambs is strong. During 1992–93 more than 700,000 live lambs were exported from Western Australia for slaughter overseas. Industry sources are confident this demand will continue and offer further alternatives for producers. The new marketing arrangements should result in overall benefits to the local lamb industry by stimulating the higher priced domestic market and removing reliance from the export market to dispose of excess production.

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