AUSTRALIAN MEAT PROCESSOR CORPORATION

Outcomes of the AMPC Cost to Operate Report

What is the CTO report?

- Quantifies approximate input costs – excluding livestock purchasing costs – to Australian processors in order to run their business.
- Breaks down the approximate distribution of those key costs (pg 14)
- Interrogates three major areas:
  - Energy costs
  - Labour costs
  - Certification costs
- Compares Australian costs with Argentina, Brazil, the USA and New Zealand.

Why is it valuable?

- It substantiates the costs and gives the hard data on just how relatively expensive it is for processors to operate in today's environment – a problem that increases the more we have to compete in the global market.
- These hard figures demonstrate the value that the processing sector has to the Australian economy, and particularly to the regional communities most of the plants exist in.

How is it different to other research?

- Heilbron 2001: Study on the Impact of Government on Industry Competitiveness
- GHD 2010: Study of the Australian Red Meat Processing Sector and its contribution to national and regional economics
- ProAnd 2012: Regulatory costs assistance project
- ProAnd 2016: Regulatory costs report

What does it say?

Table 7 – Operating cost structure summary (excl. livestock costs), beef processors, Australia, New Zealand, United States, Brazil and Argentina

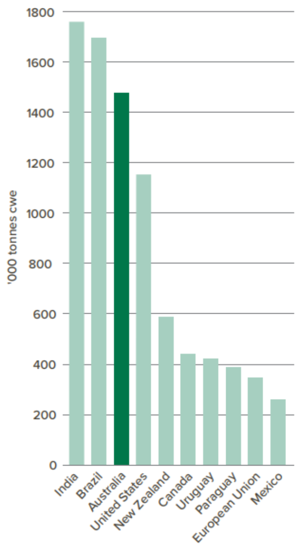
	Australia		New Zealand		United States		Brazil		Argentina	
Component	**Cost per head (AU$)**	**As % of total costs**	**Cost per head (AU$)**	**As % of total costs**	**Cost per head (AU$)**	**As % of total costs**	**Cost per head (AU$)**	**As % of total costs**	**Cost per head (AU$)**	**As % of total costs**
Labour-related costs	$210.54	58.4%	$164.20	53.7%	$129.46	44.6%	$75.63	43.9%	$88.31	42.9%
Utilities-related costs	$21.62	6.0%	$16.59	5.4%	$12.26	4.2%	$19.93	11.6%	$13.05	6.3%
Certification-related costs	$7.29	2.0%	$12.95	4.2%	$1.49	0.5%	$0.52	0.3%	$2.28	1.1%
Total	**$360.62**	**100.0%**	**$305.78**	**100.0%**	**$290.15**	**100.0%**	**$172.29**	**100.0%**	**$205.96**	**100.0%**
Cost per kg HSCW	*$1.22*		*$1.25*		*$0.80*		*$0.70*		*$0.92*	

Table 8 – Regulated cost summary, beef processors, Australia, New Zealand, United States, Brazil and Argentina

	Australia		New Zealand		United States		Brazil		Argentina	
Component (item)	**Reg. cost per head (AU$)**	**As % of total cost item**	**Reg. cost per head (AU$)**	**As % of total cost item**	**Reg. cost per head (AU$)**	**As % of total cost item**	**Reg. cost per head (AU$)**	**As % of total cost item**	**Reg. cost per head (AU$)**	**As % of total cost item**
Labour-related costs	$179.60	85.3%	$93.41	56.9%	$79.65	61.5%	$50.34	66.6%	$75.26	85.2%
Utilities-related costs	$10.51	48.6%	$9.41	56.7%	$8.27	67.4%	$10.96	55.0%	$13.05	100.0%
Certification-related costs	$5.10	70.0%	$12.64	97.5%	$1.49	100.0%	$0.00	0.0%	$1.14	50.0%
Total	**$195.21**	**54.1%**	**$115.45**	**37.8%**	**$89.41**	**30.8%**	**$61.30**	**35.6%**	**$89.45**	**43.4%**

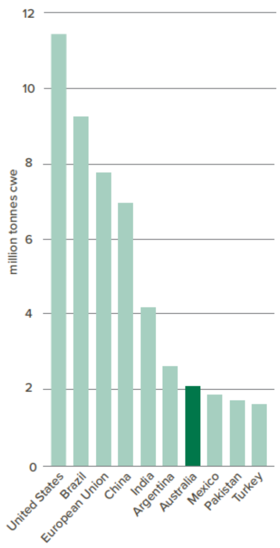
Why does this matter?

Top ten world beef exporters* (2016)



* includes buffalo meat Source: USDA

Top ten beef producing countries* (2016)



* includes buffalo meat Source: USDA

- Red meat processing is highly reliant on export markets.
  - Over 80% of Australia's combined red meat and co-products is exported.
  - While Australia has a relative large share of global exports, Australia is only a small producer in relative terms.
  - Particularly with beef, Australia is a price taker and is increasingly vulnerable to rapidly expanding exports of lower cost countries (see graph).

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What does it mean?


WHAT DOES IT ALL MEAN BASIL

- ✓ Industry has something to work with. We finally have a benchmark so we can find ways to better economise our operations – at an industry level and a plant level.

- ✓ The Australian red meat processing industry is leading the way in being able to successfully conduct and complete this type of research.

- ✓ Internationally, we have a better understanding of what exactly we're competing against.

At the end of the day?

- High costs to operate are a particular threat to Australia's regional economies and communities.
- **Red meat processing is a significant employer, particularly focused in regional areas.** In 2015-16 red meat processors directly employed 34,000 (0.3%), and supported a total of **126,000 jobs** (1.3%) (2.7 indirect jobs for every direct).
- Processors are predominantly **located in small to medium sized communities** with an LHA population of less than 50,000. On average, AMPC member plants account for 2% of their LGA employment. To put this in the context of the large east coast cities, this would be equivalent to a single city-based company employing over 6,000 people.
- **High processing costs impact the whole supply chain, from livestock producers to meat consumers.** A failure to reduce operational costs threatens international competitiveness, with flow on implications across the supply chain.