Meat & Livestock Australia Limited

submission to

Standing Committee on Rural and Regional Affairs and Transport

Inquiry into meat marketing

May 2008

Preface

Meat & Livestock Australia Limited (MLA) thanks the Standing Committee on Rural and Regional Affairs and Transport for the opportunity to submit to their inquiry into meat marketing.

MLA has focussed this submission on sheepmeat marketing for both domestic and export markets.

Regarding the description and labelling of sheepmeat and the systems in place to police these, MLA is co-funding an objective, scientific and economically sound analysis of the issue so that informed policy decisions can be made by the relevant peak industry councils: Sheepmeat Council of Australia (SCA) and Australian Meat Industry Council (AMIC).

The work being funded by MLA will provide an analysis of the extent of any mis-description within the current lamb standard and the range of state and federal systems regulating the standard, and provide an investigation into options for a more effective compliance scheme that can be consistently applied across the entire Australian sheepmeat industry.

This analysis is underway and the outcomes expected to be delivered from mid 2008 for review by SCA and AMIC.

The committee should note that MLA's submission is based on providing information and is not about providing policy advice. Policy advice is provided by the industry peak councils SCA and AMIC. Additionally, MLA is prepared to make a submission on beef marketing should it be required and to furnish any other information that may be pertinent to the committee's deliberations.

Background

On 19 March 2008, the Senate referred the following matter to the Standing Committee on Rural and Regional Affairs and Transport for inquiry and to be reported by 4 September 2008.

"The Standing Committee on Rural and Regional Affairs and Transport is conducting an inquiry into concerns in relation to meat marketing, with particular reference to the need for effective supervision of national standards and controls and the national harmonisation of regulations applying to the branding and marketing of meat."

1. Meat marketing

The role of lamb marketing is to increase demand for Australian lamb. More consumers purchasing more product at higher prices is the ultimate goal for increasing the viability and profitability of those involved in the lamb industry.

In driving consumer demand, MLA tailors its marketing programs to address the five pillars outlined in Figure 1. MLA pursues this through generic advertising and promotional campaigns, as well as working with retailers and other brand owners in better meeting consumer needs and expectations.

Figure 1: The five pillars of consumer demand

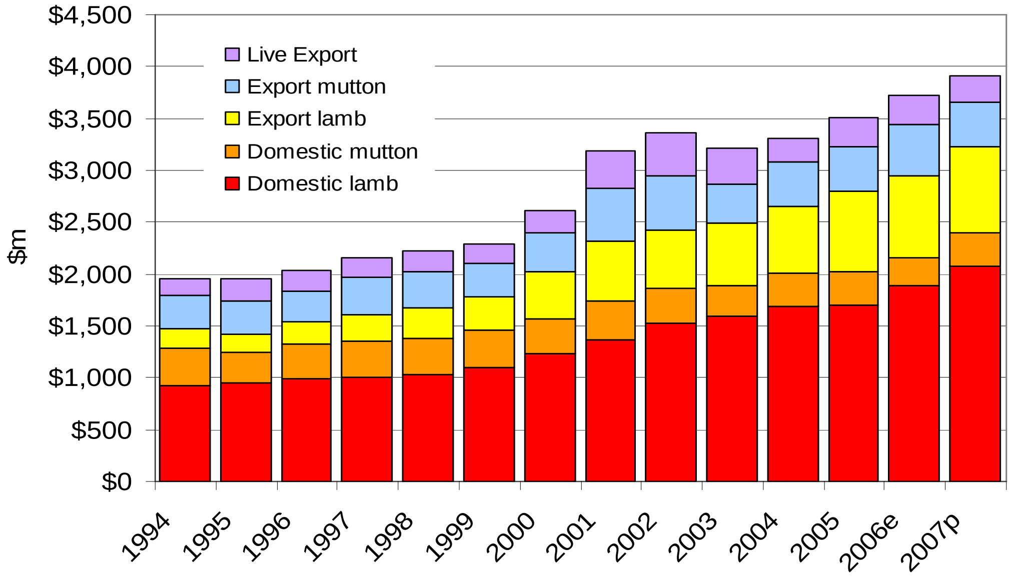
The subject of this inquiry, namely *the effective supervision of national standards and controls and the national harmonisation of regulations applying to the branding and marketing of meat*, is ultimately about meeting consumers' expectations of quality. When consumer expectations are met, this in turn impacts on their enjoyment of a product and hence determines future purchasing behaviour.

But quality alone is not sufficient. It should be recognised that all five pillars are important in building and maintaining a loyal consumer base.

1.1 Performance of the Australian lamb industry

The Australian sheepmeat industry is one of the outstanding success stories of Australian agriculture. From a domestically focussed by-product of the wool industry, the Australian industry is now a major sheepmeat supplier to the world. It has doubled its contribution to the Australian economy over the last decade and is now equal with wool in farm gate value. And it is lamb that has been the driving force behind this growth (see Figure 2).

Figure 2: The contribution of sheepmeat to the Australian economy

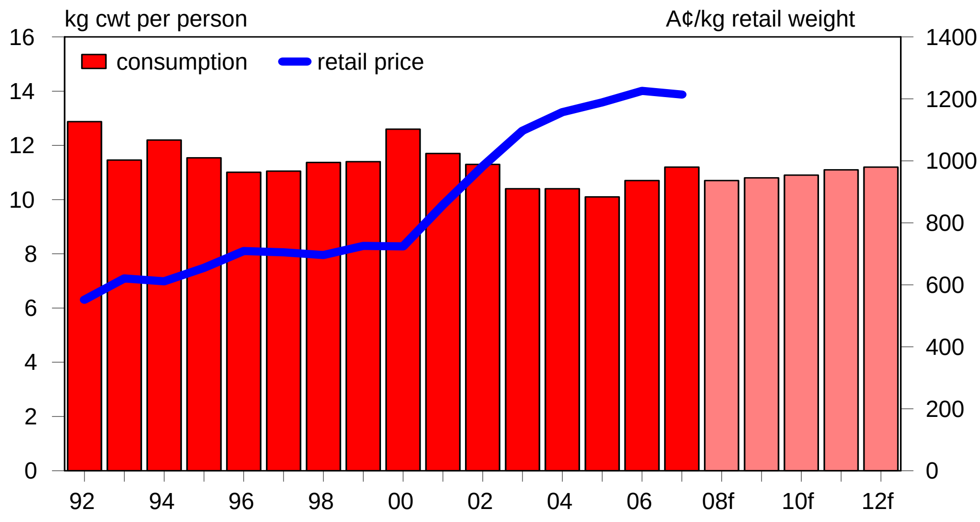


1.1.1 Growth in the domestic market

The domestic market remains the single largest market for Australian lamb, absorbing 55% of total Australian lamb production in 2007.

Domestic demand has more than doubled with consumer expenditure growing from $924m in 1994 to $2,072m in 2007 – a result of steady consumption at increased prices over that period (see Figure 3).

Figure 3: Domestic lamb consumption and price



Source: ABS, ABARE, MLA forecasts

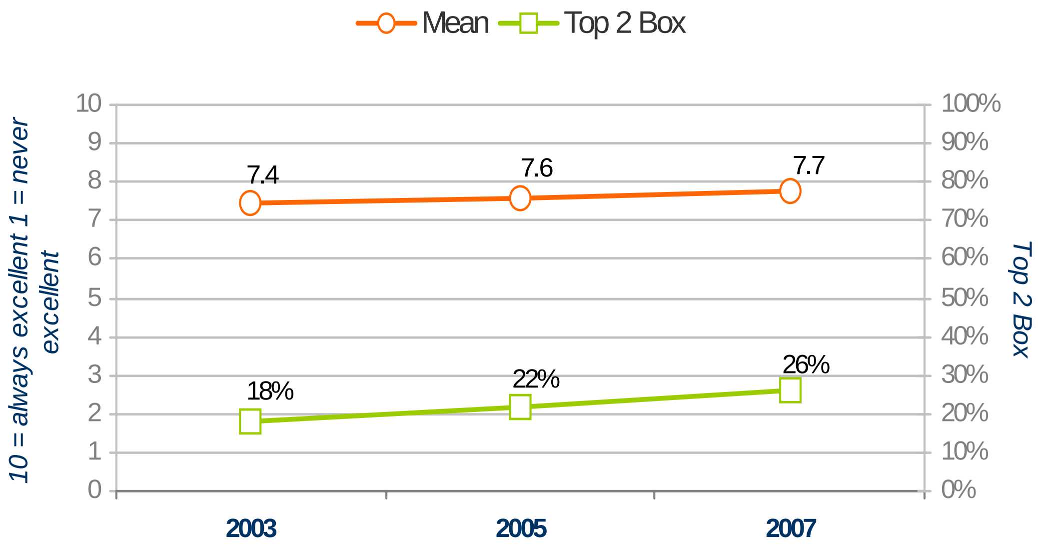
This expansion is on the back of robust economic growth, improved quality, improved retailing standards, and successful marketing and promotion leading to greater consumer appreciation of the product.

1.1.2 High and growing consumer satisfaction

The *Meat Expectations Study* commissioned by MLA in 2003, 2005 and 2007 to gauge Australian consumer attitudes to Australian lamb have shown that consumers believe the quality of the lamb they buy is high, and improving.

Figure 4 shows the consumer response from independent surveys when asked *"Overall, how would you rate the quality of the lamb that you buy today? Would you say that the quality of the Australian lamb that you buy is…".* The left axis of the chart shows the mean score, with 10 being always excellent and 1 being never excellent. The right axis shows the percentage of respondents who scored lamb at 10 or 9. These results rank highly in comparison with other meats.

Figure 4: Consumer ratings of the quality of Australian lamb

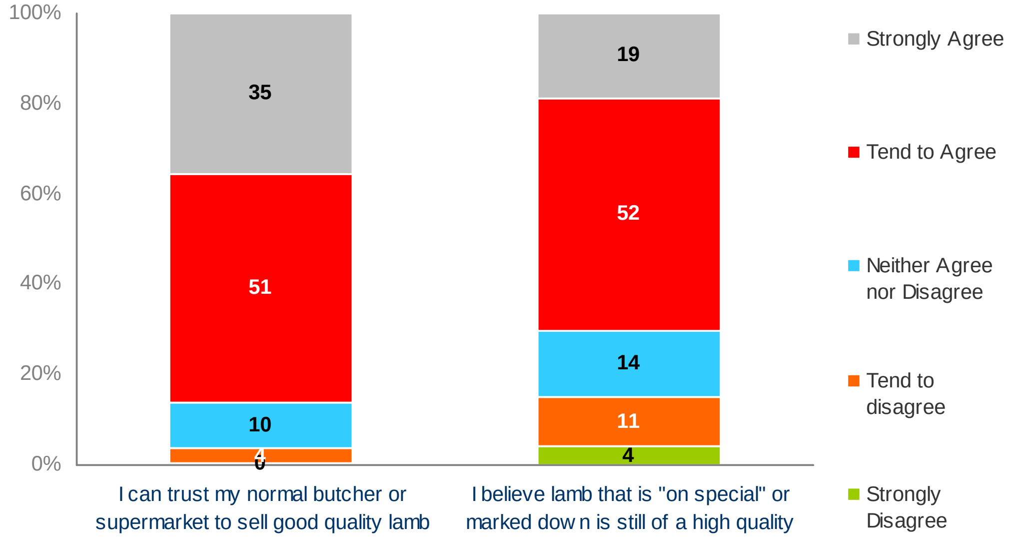


Source: *Meat Expectations Study 2007*, The Clever Stuff

1.1.3 High degree of trust in domestic lamb retailers

The same survey (*Meat Expectations Study 2007*) also found that 86% of consumers trust their butcher or supermarket to sell good quality lamb, with only 4% stating they don't trust their retailer (see Figure 5).

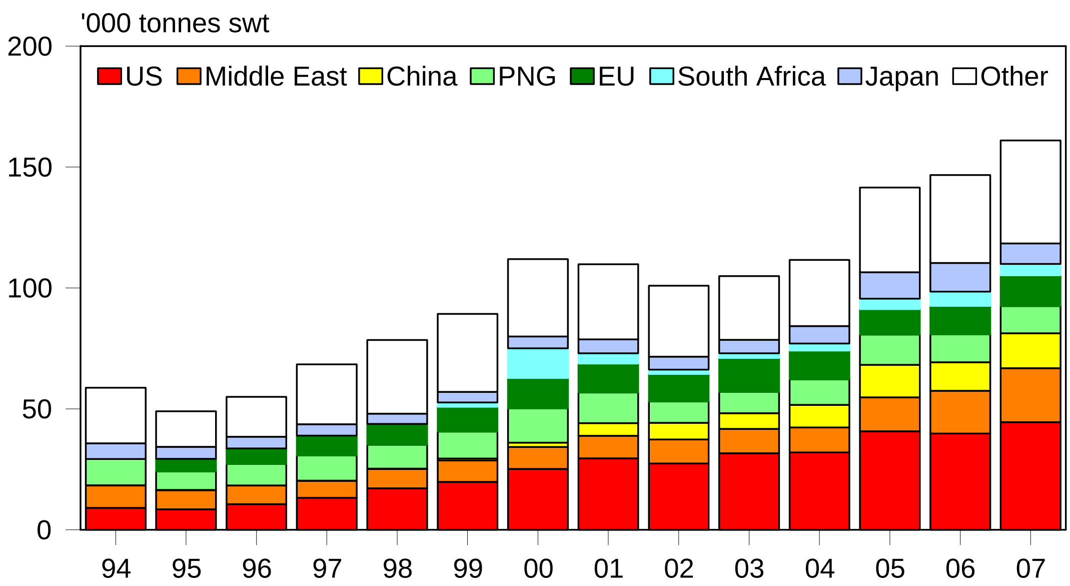
Figure 5: Consumer ratings of domestic lamb retailers



1.1.4 Growth in export markets

Australian lamb exports have increased four-fold since 1994, growing from $A190m to $A823m by 2007. Lamb exports now represent 45% of industry production, up from 15% at the beginning of last decade. While the US remains our dominant export market, Australian lamb exports have grown rapidly in a diverse range of markets (see Figure 6).

Figure 6: Australian lamb exports



Source: DAFF

The recent growth in demand for Australian lamb from export markets has been mainly driven by:

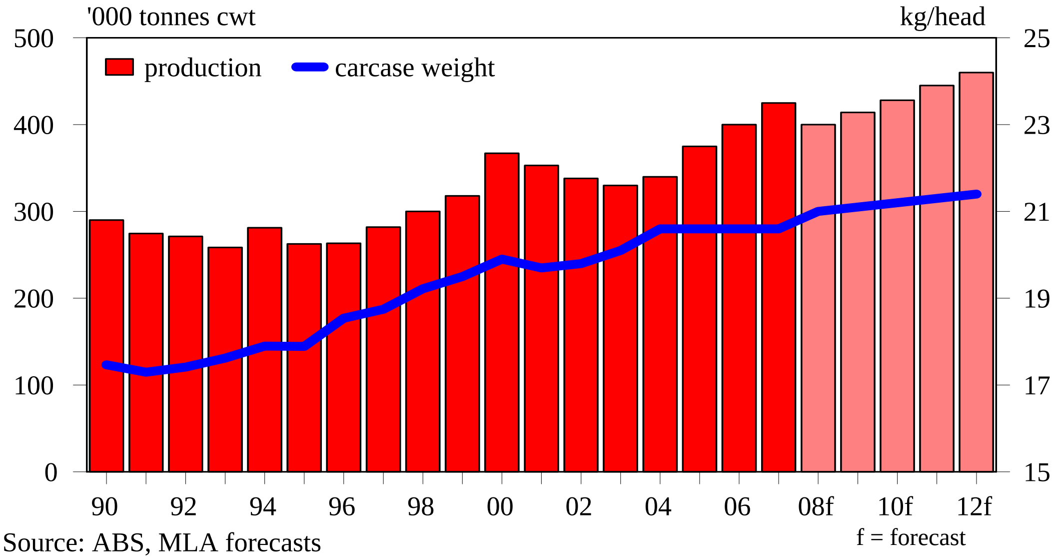
- The quality of Australian lamb, consistently meeting consumer taste preferences across the range of markets
- The increase in production of heavier leaner meat breed lambs designed primarily to meet the needs of the US market
- Strong company and industry marketing and promotion
- Population growth in several key markets
- Improved market access – reduction of tariffs in Japan, China, Taiwan, and reduced US import restrictions since 2002
- Limited competition from NZ in non-EU markets
- Increased Australian production
- Falling production of lamb in the US and EU
- Reduced competition from other meats, due to the influence of FMD, BSE and avian influenza on major global markets

1.2 The importance of quality

1.2.1 Supplying a product the consumer demands

A key step in the success of the prime lamb industry has been the industry's adoption of a product designed to better meet consumer needs for superior eating quality and nutritional value. This is the larger leaner lamb (see Figure 7).

Figure 7: Lamb production and carcase weight



Source: ABS, MLA forecasts

Through genetic improvement, and producers taking lambs through to heavier slaughter weights on improved feeding regimes, the average dressed weight of Australian lambs has increased from 17.5kg in 1990 to a forecast 21.5kg in 2008, which would have been 1kg higher still if not for drought.

Industry driven programs initiated in the 1990s – such as Fresh Australian Range Lamb for the US market and the domestic Trim Lamb program – are examples of the industry's effort and success in realigning all facets of the lamb industry to better meet consumer demands.

The domestic and international markets responded to this improved supply with a shift in both price and demand. Internationally, this has further assisted in the development and opening of numerous new markets for Australian lamb.

But quality improvement is a never-ending process in a competitive market and with evolving consumer expectations.

1.2.2 The SMEQ program

In 1998, MLA, research partners and industry undertook a research and development program to better understand the factors influencing lamb and sheepmeat eating quality.

This sheepmeat eating quality (SMEQ) research was identified as a priority area due to increasing consumer demand for improved quality, consistency and versatility, and the desire from hogget and mutton producers to add value to their products.

The overall objective of the SMEQ research program was to develop and deliver tools and information to identify:

- The potential for significant reduction in eating quality failure rates using cost-effective technology
- Opportunities for better commercial exploitation of non-lamb sheepmeat, and
- Opportunities for targeting premium lamb

The work identified a wide range of factors that can affect sheepmeat eating quality, including:

- Breeding and genetics
- Age at turn-off
- Nutrition and growth path, including pasture characteristics and finishing systems
- Stress and handling pre-slaughter
- Type, frequency and voltage of electrical inputs during processing
- Method by which the carcase is hung following slaughter
- Rate of chilling and pH decline following slaughter and the ultimate pH of the carcase, and
- Period of aging between slaughter and consumption

The SMEQ program devised a model for predicting eating quality based on the results of 45,000 records of consumer evaluations of lamb and sheepmeat. No single quality trait (eg tenderness, juiciness, flavour) was found to dominate a consumer's enjoyment of sheepmeat. The model determined that all these factors contribute significantly so that a mixed score is the best measure of a consumer's satisfaction with sheepmeat eating quality.

A scoring system for eating quality was derived from the consumer responses and linked back to all the factors affecting eating quality. The system separately identified ratings (0–100) for each of tenderness, juiciness, flavour and overall liking.

The data was analysed to determine some approximate boundaries for the score – for example, a 'better than every day' score would be above 70; 'good every day' between 48 and 70; and a 'fail' anything under 48. At any given score, the risk of a 'fail' changes according to the different processes involved from genetics through to final cooking.

The mean eating quality score for all sheepmeat tested by consumers in this study was found to be in the 'good every day' range, including certain hogget and heavily denuded mutton cuts. This indicates that consumers are generally satisfied with their sheepmeat dining experience.

Lamb remains the 'premium' product when comparing like-for-like (eg same processing methods), while young mutton (1 to 4 teeth) loin cuts, processed under best practice conditions, have only slightly lower eating quality than weaned lamb loin cuts processed under the same conditions. The mutton loin is basically as good as the hogget loin, however leg cuts are inferior.

Unlike a similar program undertaken by the beef industry (Meat Standards Australia or MSA), where quality grades are based on an 'outcome' assessment of individual carcases, the SMEQ work can only be commercially applied using a 'pathways' approach to production and processing of mobs. This difference in approach between the species is due to the much lower carcase values of lambs and sheep relative to beef, and the need to retain fast and simple assessment methods within sheep plants.

These pathways are now incorporated into the supply specifications of the major retailers in Australia and have been adopted by many processing companies to improve the quality and consistency of their products and brands. The MSA trademark has been extended for voluntary use on sheepmeat products coming through these pathways provided those plants have auditable systems and are licensed by MSA.

Additionally, one processor is now applying these pathways to develop a market for quality guaranteed hogget.

The SMEQ science provides guidance for further improvements in the eating quality of lamb. One such opportunity lies in better reaching market specifications at a younger age.

2. The need for effective supervision of national standards and controls

and

3. The national harmonisation of regulations applying to the branding and marketing of meat

As reported in the preface to this submission, commentary on this area is made by the submissions from the Sheepmeat Council of Australia (SCA), the Australian Meat Industry Council (AMIC) and AUS-MEAT.

MLA is co-funding an analysis of the extent of any mis-description within the current lamb standard and the range of state and federal systems regulating the standard.

This analysis will also look at options for a more effective compliance scheme that can be consistently applied across the entire Australian sheepmeat industry.

This analysis is underway and the outcomes expected to be delivered from mid 2008 for review by AMIC and SCA.

Conclusion

Ensuring consumers' quality expectations are met and exceeded is one of the key drivers to increasing demand for lamb. Recent surveys conducted among Australian consumers indicate that the quality of lamb is good and increasing. Consumers also trust their retailer to provide them with quality lamb.

While this strong consumer sentiment has been a contributing factor to the success of the lamb industry domestically and globally, there are further enhancements to the quality of lamb being introduced by industry, ranging from on-farm genetics programs to pathway approaches for enhancing and targeting eating quality outcomes.

Future enhancements to standards should continue to be based on effectively and efficiently meeting the expectations of the consumer.

The role that current labeling and branding standards, and the enforcement of these, will play in future enhancements will be deliberated by the industry peak councils (SCA and AMIC) following completion of the analysis mentioned previously.