TECHNICAL UPDATE

Compudose™ implants and market access

The economic value of implants to producers and the wider industry needs to be analysed thoroughly prior to making any management decisions. The following update outlines key facts around market access for Compudose implanted cattle and available premiums for non-treated markets.

Export markets for Australian beef

In 2015, about 75% of all beef produced in Australia was exported. The four largest markets for Australian beef were, in descending order, USA, Japan, South Korea and China. Of these, China is the only market that does not accept HGP-treated beef. Chinese imports grew significantly in 2013 but have remained stable since then. Increasing competition from Brazil and other countries may impact the size of Australian beef imports to China in the future. Although the EU is a high value market, it accounted for only 2% of Australian beef exports in 2015.[1]

In most circumstances, Australian beef producers do not supply a specific end market. Instead, processors allocate primals and portions to fill orders across many end markets. There is no clear relationship between the price of exported beef and local cattle prices.[2] Most processor grids do not show any price differentiation for these top four export markets, regardless of HGP acceptance, reinforcing the fact that producers should focus on feedlot and processor grids, as the end market is determined by the processors and exporters.

Premiums for HGP-free cattle / discounts for HGP-treated cattle

Most major processors and feedlots accept HGP-treated cattle with little or no discount.[3] In fact, the two largest processors in Australia currently accept HGP- treated cattle without any discount. Some feedlots encourage the use of oestradiol-only implants (e.g. Compudose) during backgrounding, as they help to build a larger frame and allow the feedlot to take full advantage of the performance benefits of combination implants (i.e. trenbolone acetate and oestradiol) during the finishing period. Saleyards can be an exception to this rule, although in times of high demand, discounting is less likely.

While premiums for HGP-free cattle can deliver good returns, it is worth remembering that these market premiums are not guaranteed, may be highly variable and short-lived. To be eligible to supply some of these markets requires producers to participate in audited on-farm quality assurance programs that can attract auditing fees and other administration costs. Furthermore, some of these markets require carcases to achieve a minimum MSA grading or processor specifications.

Table 1: Premiums required to offset the productivity benefits provided by using Compudose implants

Scenario	Liveweight at implanting	Finished liveweight (untreated)	Compudose advantage		Premium required not to use HGPs	
			Liveweight advantage (A)	Reduced time on feed (B)	100% compliance (C)	70% compliance (D)
Trade steer – implant at branding	120 kg	540 kg	66 kg	115 days	59 c/kg	69 c/kg
Trade steer – implant at weaning	230 kg	540 kg	49 kg	85 days	43 c/kg	54 c/kg
Heavy steer – implant at branding	120 kg	680 kg	89 kg	152 days	62 c/kg	72 c/kg
Heavy steer – implant at weaning	230 kg	680 kg	71 kg	123 days	50 c/kg	61 c/kg

Assumptions: Market price for HGP-free cattle = $5.60/kg HSCW and 52% dressing percentage. Figures assume a 15.8% liveweight gain advantage for Compudose implanted cattle. Market price for HGP-treated cattle = $5.20/kg HSCW and 52% dressing percentage. Market price for cattle that fail to meet market specifications = $4.70/kg HSCW. Premium required takes into consideration cost of implants throughout the growing period.

Compudose implants and market access

Using today's beef prices, the premium required to offset the productivity benefits of implants ranges between 43 c/kg and 62 c/kg. These figures are impacted by age at implantation, growth rate, dressing percentage, finished weight, and ultimately price. If only 70% of the cattle meet the specifications for a premium, the premiums required to offset the productivity benefits of Compudose increases to 54 c/kg to 72 c/kg (Table 1).

Table 1 shows four implant scenarios demonstrating:

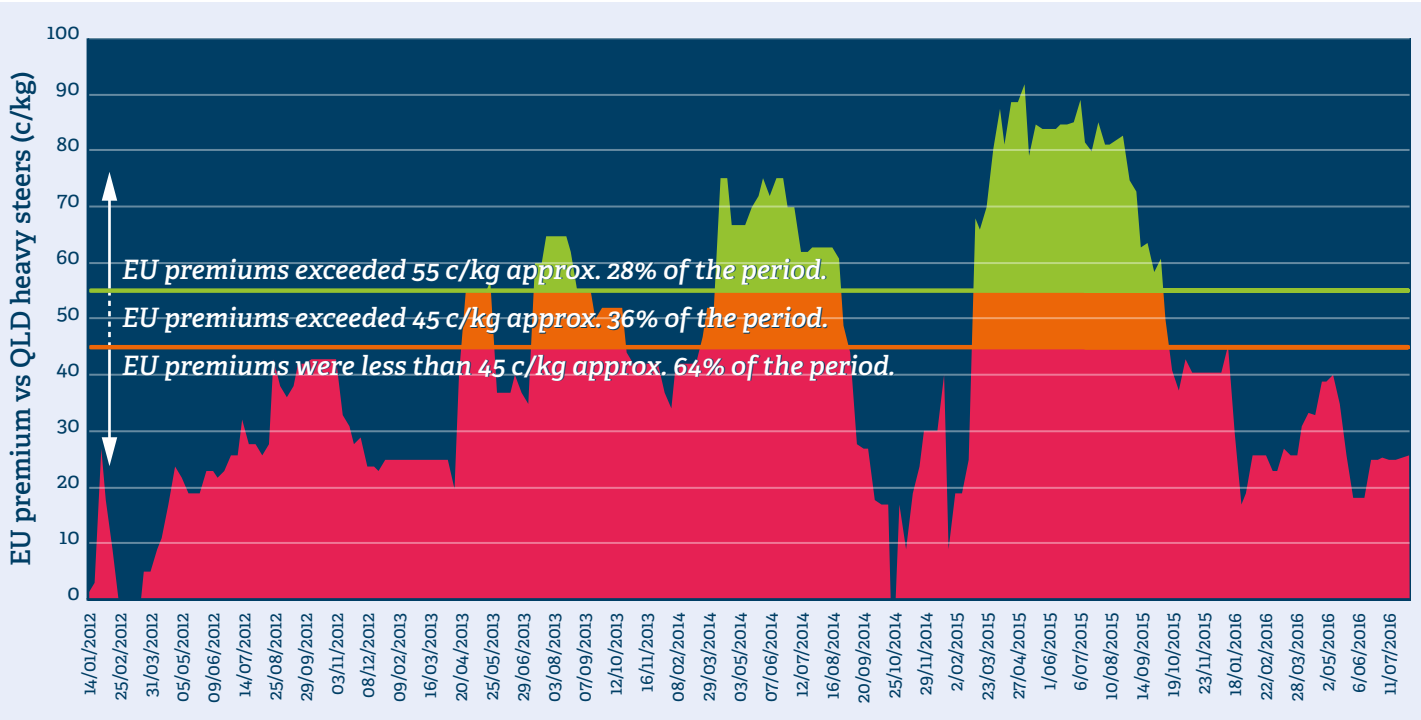
- the liveweight advantage of Compudose implanted cattle if they are slaughtered at the same time as untreated cattle (A)
- the reduced number of days required for Compudose implanted cattle to achieve the same target weight compared to untreated cattle (B)
- the premiums required to offset the productivity benefits provided by using Compudose (C)
- the premiums required to offset the productivity benefits provided by using Compudose if only 70% of cattle achieve target specifications (D)

Figure 1 shows the differential between reported EU and heavy steer prices, demonstrating the fluctuations in premiums available for EU cattle. This graph was built using reported prices sourced from the MLA statistics database.

Note that prior to 2015, Queensland EU prices were unavailable for comparison to Queensland Heavy Steer Price. Before this date, NSW EU prices were used for comparison to the Queensland Heavy Steer price and checks against EU Queensland grid prices made for consistency. EU prices between NSW and Queensland may have varied slightly.

The 55 c/kg break-even line represents the average premium from Table 1 required to offset the productivity benefits provided by using Compudose. The 45 c/kg break-even line represents the average premium required using pre-2015 cattle prices.

Figure 1: Price differential between Queensland EU and Heavy Steer markets (January 2012–July 2016)



Do HGPs affect Meat Standards Australia (MSA) grading?

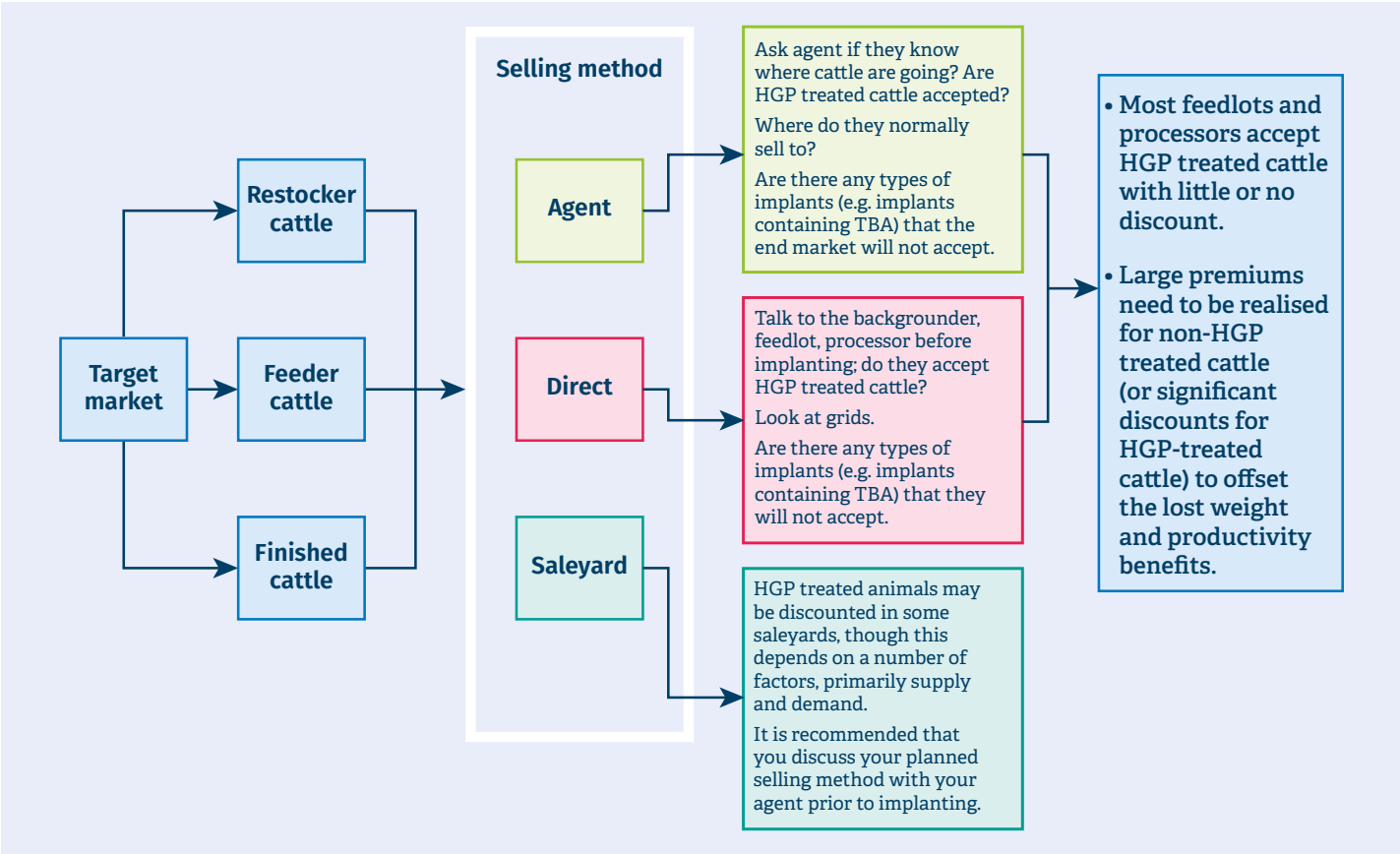
Many processor grids are based around a Meat Standards Australia (MSA) grading index or boning group, regardless of the end market. This provides confidence for the processor in marketing a predicted quality of meat. HGP-treated cattle are eligible for MSA grading but receive a penalty of five MSA index points for the known impact of HGPs upon eating quality, over and above their impact on fat measurements, marbling and ossification. Despite this, the majority of HGP-treated carcasses presented for grading in 2014/15 achieved minimum index scores to achieve a premium on most processor grids. Of these, 35% were HGP-treated grass-finished cattle, demonstrating that HGP treated cattle achieving MSA grades are not only finished in feedlots.[4]

What is the outlook for the Australian beef industry?

The size of the Australian beef herd and subsequent beef production is declining due to destocking and record adult slaughter numbers arising from severe drought conditions across northern Australia. This has been coupled with an increased export demand from the USA due to the competitive $AU, reduced US herd size and subsequent high US cattle prices. The Australian herd is not predicted to rebuild to the ten year average of 2006-2015, until at least 2020 (27.7 million head).[5] Reduced beef production may cause a loss of market share in key export markets, as the US herd rebuilds and South America expand their export access.

Likewise, there is likely to be some rationalisation in the processing and feedlot sectors as processors and lotfeeders attempt to remain competitive within reduced cattle numbers. Processors and feedlots will be forced to compete for cattle to maintain throughput, ensuring cattle prices remain relatively firm. This will ensure demand for both HGP-treated and HGP-free cattle remains strong.[2]

Figure 2: Selling HGP-treated cattle



TECHNICAL UPDATE

Compudose implants and market access

Summary

Rather than making management changes that attempt to pre-empt future export markets for Australian beef, producers should focus on supplying cattle that meet processor or feedlot specifications to maximise the price received per head of cattle supplied. Prior to implanting, producers should ensure the acceptability of consigning HGP-treated cattle to processors or feedlots directly or with their agents.

- The majority of processors and feedlots accept HGP-treated cattle with little or no discount. Implanted cattle are eligible for MSA grading.
- Premiums for HGP-free cattle are not always guaranteed, can be variable and short-lived.
- The premiums for HGP-free cattle need to be significant to offset the productivity benefits of using HGPs.
- Each box of COMPUDOSE contains 3000 kg of world-class Australian beef.[6]
- Each box of COMPUDOSE delivers about $10,000 of extra profit at today's buoyant cattle prices.[6]
- COMPUDOSE helps you achieve market specifications sooner, resulting in more beef produced with less inputs or more beef produced per hectare.
- The use of implants, such as COMPUDOSE, produce an extra 150,000 tonnes of world-class Australian beef each year.[7]
- The use of implants, such as COMPUDOSE, delivers an extra $172 million to Australian beef producers each year.[7]
- HGPs and other growth enhancing technologies (e.g. RUMENSIN™) maximise productivity from available resources and reduce greenhouse gas emissions.

Contact your local Elanco Animal Health representative today to determine the productivity advantages of using implants in your herd and the premiums required to offset this advantage if a HGP-free market was targeted.

For more information, please contact your local Elanco Territory Manager or Elanco Animal Health on 1800 226 324.

References:
1. Meat and Livestock Australia Statistics Database.
2. Beef market analysis relevant to the use of HGPs, Freshagenda 2016.
3. Beef Central – *Little evidence of HGP discounting in meatworks grids* (22/06/16).
4. Australian cattle – Industry projections 2016, Meat and Livestock Australia.
5. MSA 2014–2015 Australian beef eating quality audit.
6. Assumes a 15.8% liveweight gain advantage in cattle gaining 0.5 kg/day over 400 days, $3.17/kg liveweight and 100 implants per box. Results may vary according to seasonal conditions.
7. Assessment of benefits from using HGPs, Freshagenda (2014).

Elanco Animal Health
A division of Eli Lilly Australia Pty Limited
ABN 39 000 233 992

www.elanco.com.au

1800 226 324