



Jim Cudmore

Manager, Kerwee Lot Feeders

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Thanks Hugh and Juliet, Sinclair and Joe for inviting me down today, it's a real pleasure to come down into New South Wales and experience some beautiful sunshine around Bingara because I don't think I've ever been here when that's happened before so it's great thank you. I just want to touch on two things really and the first one is probably just to give you a bit of an overview of what our company does so that you get a bit of an understanding of what we do and then I will branch out into the bigger picture stuff and see how the bigger picture effects a business like ours.

So Kerwee Lot Feeders is a family owned business, it's owned by the Hart family they have been feeding cattle since about the middle seventies I suppose. They developed their own beef brand or beef label called Stockyard Beef and they developed that back in the middle seventies, all based around the liberalisation around the Japanese market and so Robin saw an opportunity I guess to develop a beef brand and export it into the Japanese market and as a consequence of that he was probably, he in conjunction of couple of other fellows were pioneers I guess in terms of developing relationships, customer relationships right at the cold face with the customers in Japan which is a difficult thing to do because most of us understand that there is a lot of links in the chain to get beef into some export markets, and particularly Japan, there is a lot of traders and middle men and all sorts of other people in between. He was lucky enough to get on trade directly to some customers and today, thirty odd years later will still supply some of those same customers the product ranges are slightly different but we still supply them.

Initially when that arrangement or that relationship developed it was all around short fed cattle, Robin was a Santa Gertrudis breeder and he quickly realised after a number of years that he couldn't bash away with the bigger players in the game on that short fed product and that he really had to come up with a strategy to position his product and his brand in the marketplace that was a little bit different and I guess that over a period of time there was a swing to British bred cattle and Angus cattle in particular and then a supermarket chain came along about fifteen years ago who particularly wanted to have a product that was quite unique and that product was built around Angus beef and it was called Bimie Beef which was basically a black Angus animal in Queensland which was a bit of a novelty in itself fifteen years ago but that business development I guess involved securing a lot of Angus type cattle out New South Wales and Victoria and the current business today is built on the

back of that I guess so Angus cattle to Kerwee is a very important part of our cattle mix.

We have always fed cattle for around about five months and seven months, that's been our core sort of business and obviously the market conditions change from year to year or from decade to decade, we adapt our feeding regimes to what the customer wants in the marketplace so again and I will branch out into it a bit further when I start talking about the bigger picture feedlot sort of sector but the current situation for us is that where we had three to four to five years ago up until ten years ago we had quite sophisticated long feeding programs, we used to feed cattle up to three hundred days, they were all Angus, they were all very much identified and followed and we had sort of target that we wanted to meet at the other end so we were resourcing for cattle here that we knew a bit about and we were blending with a feeding regime and then we were getting an outcome for a particular customer, not for a market but for a particular customer. So we were very much focused on the end user and then of course along comes a drought or two droughts in a row and grain prices go up to astronomical levels our costs of production gets out of wack all of a sudden our product is too expensive for our customer overseas so then we have to adapt to that and that's probably the cycle that were still in now.

What we have is an adaptation I guess through reducing the days on feed in that product and the customer still had an expectation that we could, you know we would shift the goal posts over there but they were still going to get the ball kicked between them in terms of their experience in terms of meat quality. Which was a bit of a challenge and hence you saw a lot of naval gazing I suppose in terms of how you could identify the cattle that could achieve similar outcomes with less days on feed and of course less cost input. On the back of that then you have the economic cycle that turned against I suppose all commodities but in particular the grain feeding sector where grain fed beef probably sits at different points in the chain a little bit out of the loop and to some degree in some menus and in some restaurants and in some kitchens grain fed beef is probably a little more expensive and so again we will battle not only the factor that our product was very expensive to produce we were also battling people having less money to spend on beef and so again we had to continue over the last twelve or eighteen months that same mentality of how we can supply the customer with a beautiful eating experience but spending a lot less money on it.

So Kerwee have reduced days on feed and we have actually had customers trade down from that high end, high value, high cost product, they have traded right down to even that sixty and seventy day product. They haven't totally changed so all they have done is said okay we have still got customers that are prepared to pay that sort of money for that type of product and they still want a certain amount of it sure they want less but they still want a certain amount but were going to blend it and when I say blend, were going to blend containers so when we send fourteen tonnes of high

quality meat it will be six tonnes of this and six tonnes of that and two tonnes of that and so that's the way a lot of the export companies are working they have, sort of instead of having one set of goal posts and shifting them about we have actually got about three or four sets now and were having a kick at all of them and it's made it quite challenging in terms of meeting the customers expectations but also keeping us in the game and I think the Australian industry has been pretty successful, our company has been successful at it because we are a family company, were only a small cooperation and when the goalposts shift we can adapt to that very quickly, some of the bigger companies where the information is a bit slower to filter through have adapted but they have adapted a little more slowly I guess so what your seeing in the market place from Kerwees' point of view is that we're out buying a fill range of cattle now and we're just feeding them into a production mix and then channelling those cattle out to a whole heap of different customers with different expectations.

What your starting to see in the last six months with our customers is that there is a gradual shift back away from a desire to have more low cost product if you like back towards some of that high end high quality type product which is encouraging because what that means is that what we thought twelve months ago in that the grain feeding and the high cost production of the high value animal might be finished forever.

You know everyone is telling us that we are going to turn grain into ethanol and its not efficient to feed cattle because they are poor converters we might as well feed it to chooks and pigs but you know we have got our feed conversion down to four or fives kilos per kilo of beef production and you know that's a long way from ten and twelve, the way it used to be so you know we have become more efficient and we will become more efficient as time goes by so the more efficient we become the more able we are to produce that high end value product and that's where these sort of cattle, not only do they fit right across the chain but they actually fit particularly well in that mid to high end sort of category market as well so our business has probably not changed all that much but just the numbers of targets I suppose that your shooting at.

So we are still quite active in the Angus market we have got a CAAB or a Certified Angus Beef program and we are only registered to feature in a certain segment of the market, we are not aloud to produce certified Angus beef and sell it "willie nillie" all over Australia and in the export market.

We, Kerwee Stockyard in conjunction with Cargill and in conjunction with as from as from this year TNR in Adelaide or South Australia, we are the three companies in Australia that have registered rights to sell product into particular markets as certified Angus Beef for us it is an important strategy a lot of the product that we

produce for Angus cattle anyway or Angus hybrid cattle so it's an important segment of our market but being able to sell into and our two core markets are the U.S. and Middle East being able to sell certain cuts into those markets just adds a little more value to that carcass because the way we market beef today is very different to the way it was seven or eight years ago. Seven or eight years ago you would just kill the body, cut it up, chill it, package it into a box and whip it off into the market and let them worry about it. Today you will sell tenderloins to a five star restaurant in Melbourne, you will sell rumps to the Cloncurry hotel and the Roma hotel, you will sell strip loins in cube rolls to Japan and you will send all the four quarter cuts to Korea or any mix of that depending on the type of, so it's just quite different marketing, its challenging but it's also extracting the most value out of that animal and CAAB fits into that category where you can actually produce high quality beef but because it's out there in the marketplace competing with that U.S. CAB product and that's one of the reasons why we have sort of picked it up we can actually bash away against U.S. product with the same type of standard if you like, where before we didn't have much credibility we were just saying it was an Angus produced product and we didn't have any way of badging it so now we can actually stick a CAAB sticker on it and the customer can say well that's an Australian CAAB or that's a stockyard CAAB, that's the U.S. CAB and compare the two and they can make their own decision about which one they want to buy and what they want to pay for it.

So that the new advantage for us, umm, in terms of the industry I guess she's been a rocky old road the last couple of years for all sorts of reasons but mainly cost of production related. I guess now we have been bouncing along the bottom of the gutter for a while and we are just about to come up the other side of the bank I think and just hopefully it's not too slippery but it is a bit of a challenge for us we are having the question asked all the time are we relevant to the beef industry in Australia, I think we are, we provide a lot of value at a particular point in the chain for the beef production in Australia and I don't think that will change in fact if anything I think it will become more important, there is going to be more people in the world, people are going to have expectation about the type of food they eat particularly red meat protein so to me it's a natural progression that the Australian beef industry will produce more grain fed beef. I think there's issues that are going to impact on that and one will be environmental issues and how credible we are in terms of production systems, that's not just the lot feeding sector I think that is our entire sector the cattle production sector we really have to be on our game and be proactive, do the science get the research, prove what we do and what we don't do and maintain that credibility so that the customers who don't know about production systems have a genuine understanding of the impacts that we have on our environment and if you want to the world environment..

I guess the other important thing is that I think animal welfare is the next cab off the rank in terms of we are going to have to continually justify what we do in an animal welfare sense and we are going to be up the gun first because we are the easy targets but I think the whole industry is eventually going to have to come up with a

bit of a plan and come up with some good credible science and some good discussion and argument as to why we're a valuable provider of protein that doesn't impact on society and societies perceptions of what we should be doing, we all know what we do we know we do a good job and were not going to stop doing a good job but there is a hell of a lot of people out there who don't really understand what we do and particularly from a lot feeding point of view you know I see it as my role to be out there bashing on every door I can to say that we do, do a good job, we are justifiable in our production system and we bring a lot of credibility to the table in terms of how we produce red meat protein and I would think as long as we don't branch off and start cutting the industry off into various segments and start playing silly games against each other we will be able to tell that story and we will be able to get it quite clear to people to understand. But I think that environmental one and that animal welfare one in particular and the animal welfare one is a sleeper because they are marching their troops as quick as they can and they have got a shitload of money that they can throw at it and we are just going to wake up one morning and wonder where it all came from.

So they are the two big issues in terms of going forward the lot feeding sector is going to become a more important part of the chain, processes are changing the way they operate, they are changing the way they relate to their customers, we are not just producing beef and splashing it out there anymore, we have become very customer focused, very specific about the way we target them and we have even become very specific about customers in the same market and how we deal with them differently in terms of the product lines and how we add value to what they do and getting them to understand production systems like MSA rather than just keep it to ourselves, stick it over there and get them to understand that rump is not just rump, rump is five muscles and three of them are magnificent. You know just educate them about different ways that they can adapt red meat protein or beef particularly to their eating diets and that sort of thing, so that is about all I've got to say if anyone has got any questions I'm more than happy to have a crack at answering them.

Question:

You talk about this four, four and a half conversion, obviously you must be doing some experimentation, something on rumen development. Could you tell us what you're doing?

Answer:

Oh no we're always playing around with different ways of feeding cattle and the genetics in cattle have changed over time as well so they're more efficient as well. But when I say four, four and a half it's on a dry matter basis so if you convert it back and most diets contain about eighty-five percent grain so I'm talking about the conversion of grain if you like.

Comment: *That's still very, very good because a lot of feed lotters think their going well when their doing sixty-five and a half, six.*

Question:

Do you know of anyone who's been doing Rumen development, this Elms program, have you had anything to do with them?

Answer:

I haven't had anything to do with that particular program but I've had a bit to do with the thinking processes about Rumen development and the younger ages and that sort of thing

Comment: *Do you have any thoughts on it?*

I think it's crucial. Again, its horses for courses and you've got to be very careful that you don't just throw a blanket over all cattle and all production systems, but we've done a lot of work in F1 waggu Angus and waggu Holstein cattle about the development of adipose cells or fat cells. And it all comes back to Rumen development, but there is a very critical time when an animal is at a certain age, that's a young age that if you, if you do everything right in terms of nutrition and energy and animal health in terms of free of parasites and all those sorts of things, you set the course for the rest of their life.

And Adipose cells a good example because its visual or its there in your face and you can see it and you can measure it. And there's a period in time where they develop those adipose cells, after that they don't. After that all that happens is that those adipose cells just get bigger and bigger, and so that's what gives you your marbling. So I'm a great believer in you set the course of an animal very early in life, but you've got to be very careful that different breeds will probably be different and have different developmental stages and we've got a huge production system in Australia so there's variations of so many different things, you've got to be very careful that you don't generalise.

But the works being done and we and the others, this grain handling system, and grains productions systems, and there's grain varieties, and there's different times of the year, that you can actually maximize that performance, where you can take it from a fee conversion of six and a half down to four and a half, and breeds of cattle obviously as well.

Question: *Why is there not a premium for milk teeth steers entering a feedlot over two toothed steers?*

Oh yeah, I get very nervous talking about premiums only exist when, if you know what I mean, like these cattle always get a premium above other cattle because their a different breed and their adaptable into different markets if you like so that there's a premium for these cattle all the time. But then there are premiums within premiums I guess.