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# BUSINESS AND MANAGEMENT PROBLEMS BETWEEN KILLING AND FINAL PRODUCT SALES

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## SUMMARY

The marketing of beef from a feedlot requires very careful attention to detail. Every effort has been made by the farmer to produce a top-quality carcass and all this effort could be wasted and in fact become a liability, should there be any slip-up between slaughter and final product sale. The marketing team must know well in advance the quantities of lot-fed beef which will be coming forward; the exact requirements of every market and each buyer must be studied; processing facilities and shipping opportunities have to be co-ordinated; the receiving, clearing, storage and distribution at destination must be thoroughly reliable. Export documentation requires close attention to detail and above all a satisfactory price must be secured.

## INTRODUCTION

The main markets for New Zealand meat can be classified into three zones, namely Europe (including the United Kingdom), North America and Asia. As it is not practical to cover each market individually, the problems are considered in relation to these zones rather than to individual countries. As Japan is the largest of the Asian buyers this market has been used as the guidepost for that zone.

## METHOD OF SHIPMENT

There are basically two ways of shipping our export meat, one being the traditional frozen form and the other fresh chilled. The latter can be shipped by air or special sea freight.

The New Zealand frozen meat trade has been designed for shipment of carcasses to the United Kingdom where the English butcher is able to carefully thaw them and sell the product by conventional means. The same method is also very suitable for our lean boneless beef which is being used for manufacturing into various other product forms.

To obtain the best returns from feedlot beef it should be shipped in fresh chilled form. This is not the old-style method of quarters or sides being hung on rails within the ship's hold, but the much more sophisticated technique of boneless cuts, prepared exactly to the buyer's specifications, and

vacuum packed for shipment by container. This also allows for very quick distribution in the country of destination and permits each cut to be sold to best advantage, in different areas if necessary.

#### FINDING THE MARKET

The first problem in the disposal of feedlot products is to find a suitable market. High-quality beef produced on a feedlot is best suited to the butchery trade rather than the manufacturing or institutional trade.

The origin of feedlot beef was North America and countries in this area produce sufficient quantity for their own requirements. A very active cattleman's association lobby exists there and a very strong and disapproving reaction could be expected were we to attempt to ship quantities of fresh chilled feedlot beef to these markets.

The European market, including the United Kingdom, appears as a potential one for this good-quality product; currently, however, various factors create difficulties which cannot be quickly resolved.

The logical market at present for feedlot chilled beef cuts is Japan. This market is a regular importer of Australian and New Zealand chilled beef cuts some of which originate on feedlots. In this area the product is readily accepted and a short transit time is an added advantage.

There are opportunities to ship parts of the carcass, mostly steak cuts for hotel and restaurant trade purposes, to many of the near neighbouring areas in the Pacific. Markets such as Hong Kong, Singapore and Tahiti are regularly importing fresh beef cuts by air, but a problem is posed by these markets in that they do not take a full carcass and other outlets must be found for the less desirable cuts.

A very important factor to be considered in selecting the market is the ability to make contracts well ahead of delivery so that before the cattle enter the feedlot it is known to which market the product will be shipped. It is therefore essential that the eventual market is a regular and reliable buyer.

#### BUYERS AND MARKET REQUIREMENTS

Having ascertained the market to which the product will be shipped, the next task is to find out exactly the requirements of the buyer and any special conditions required by the Health Authority of that country.

As far as Japan is concerned, the Japanese themselves produce a top-quality product in Kobe beef, but this is too highly priced for most housewives who look to imported fed beef as a satisfactory substitute at a reasonable price. Consequent-

ly, the product must be prepared for butcher purposes and the butcher purchasing it expects to receive good-size steak cuts of uniform quality, well-finished, with intermuscular marbling of fat. All fat must be white. Our normal grass-fed beef has a distinctive taste and odour which should not be evident in beef from a feedlot.

Because this product is destined basically for use in the butchery trade it is essential that supplies be available on a year-round basis. The demand from the market for various cuts will alter according to the season. In winter there is a market for the stewing cuts; during the summer season, with oppressive conditions, the requirements are for foods which are easily prepared and the steaking cuts are in chief demand, not only by the retail buyer, but also for restaurants for which this is a busy season.

The European market has been accustomed to dairy-type beef and most countries within this area are looking for a similar lean product. For this reason their import needs have been filled mostly from the Argentine and other South American producers. With reductions in the quantities of beef coming forward from their traditional suppliers, these buyers have been forced to look further afield for supplies. Included in their recent imports have been cuts from United States grain-fed beef. Some discerning buyers appreciate the better quality associated with this product. A continuation of this trend will lead to a growing market in Europe for this type of beef product.

Regardless of the market to which the product is being sent, all buyers will have their own special methods of cutting up the carcass and wish to receive their imported product cut up in exactly the same way.

#### DISPOSAL OF THE WHOLE CARCASS

One of the major differences between beef from a feedlot and that produced under normal range conditions is the additional fat on the feedlot carcasses. On any carcass there are some parts which cannot be classified as separate cuts and these pieces are all classified under the heading of trimmings. Naturally these trimmings from feedlot beef contain more fat than do those from traditional range-fed carcasses.

In the United States these trimmings are ground with lean beef from cows and bulls to create the traditional hamburger. The North American market produces sufficient of its own trimmings and in fact imports large quantities of lean manufacturing beef to mix with its surplus.

It is therefore essential that these trimmings are, wherever possible, included with the other cuts in a shipment in order

to avoid a disposal problem for this product. Buyers of feedlot beef recognize this problem and are prepared, while production is still small, to accept all the cuts including trimmings.

As the production of feedlot beef increases so will the buyer become more fastidious and look to receive only those portions of the carcass that can be handled profitably. There will be a growing problem in the disposal of trimmings and, at certain times of the year, the stewing-type cuts. The exporter must therefore be continuously on the lookout for new markets which will take either the whole carcass or the less desirable pieces.

#### MARKET RESTRICTIONS

It has been suggested that Japan is the logical buyer of feedlot beef; however, this market must not be regarded as having an insatiable appetite for this product.

The importation of beef into Japan is strictly controlled by licence allocation. Although allocations should be made at regular intervals, this is rarely the case and if conditions in Japan are not right for the issue of licences then they are delayed.

Another disquietening trend is the increasing quantity of licences being allotted to the Livestock Industry Promotion Corporation, a quasi-government organization, designed to protect the interests of the Japanese farmer and also charged with protection of the consumer against unreasonable prices. Because chilled beef has a limited shelf life and must move quickly from production to consumption it is essential that import allocations are available to the trade on a regular basis with a minimum of delay. This is not always the case under the present operative system and there have been many consignments of chilled beef held for excessive periods in store awaiting the allocation of import licences.

In Europe there are also problems because of the policies of the EEC. Under its regulations the rates of duty and levies which are charged on imported beef are fixed on a weekly basis in accordance with a formula based on local livestock prices. In these circumstances, should the price in the market fall to such a level that the product on arrival attracts the levy imposition, then the owner besides incurring a normal market loss also incurs the amount of levy imposed. These conditions do not create an atmosphere for continual trading, which is an essential part of a feedlot operation.

There have been unofficial quotas placed upon imports of beef into the United States. These restrictions were imposed because of the poor returns being received by United States

cattlemen operating feedlots. To maintain this market, which is essential to the disposal of our manufacturing-type beef, New Zealand exporters voluntarily reduced shipments of quality beef cuts to virtually nothing. It must be anticipated that at some time in the future quota restrictions could very well be imposed on beef imports and particularly the feedlot-type cuts.

#### NEW ZEALAND PROCESSING FACILITIES

The processing of chilled beef cuts offers a challenge to the freezing industry. It requires much more careful packaging than is the case with the frozen product. The packing materials must be able to stand greater stresses since there is no solid block of frozen product within the carton.

The cut product is first packed into a plastic bag from which all air is extracted. This material must be of such high quality that no air will re-enter the package during transit. There are various types of plastic film available and many companies are carrying out tests to find the one most suitable for the packing of chilled beef.

Care must also be taken in the construction of cartons and the selection of carton sizes. The carton itself is required to support the weight of a stack and must be strong enough, particularly in the corners, to withstand these loadings without buckling and consequently damaging the meat or bursting the bags containing the meat. The carton sizes need to be such that the cuts fit snugly without space for movement and without overfilling which would put excess pressure on the bags.

This product also requires processing companies to have adequate chiller space available to hold it from the time of processing until the time of shipment. Most companies have adequate freezer space but have not, in the past, needed to provide large areas of holding chillers. The provision of facilities and equipment to handle chilled beef is a costly item and freezing companies cannot be expected to invest in these facilities unless they are going to be used on a continuous basis.

#### SHIPPING AND LANDING FACILITIES

One of the most essential requirements in handling chilled beef is suitable shipment vessels. As the product is packed in containers, it is best shipped in fully containerized vessels which will be able to maintain a strict timetable. Where containers are carried on the deck of a conventional vessel, they are subject to the normal delays that these ships incur and every day lost means one day less shelf life at destination.

It is also essential that, when the product arrives in the country of destination, it moves quickly through import customs clearance formalities so there is no delay in distributing it to the users. Obviously the buyer must be sound and reliable, to ensure that there are no unnecessary delays after arrival.

#### OBTAINING A SATISFACTORY PRICE

Having found the buyer, decided on the method of shipment and overcome all the other problems, then comes the very important task of getting a satisfactory price for the product. Feedlot beef will command a premium over regular beef provided it is sold to the right buyer. A buyer will not pay a premium for a product that he cannot obtain on a regular basis. Furthermore, he must have the chance to evaluate the product which means the despatch of samples and trial shipments before the first full sale can be negotiated.

Having obtained a reasonable price for the first shipment, it is essential to ensure that the quality of the product is maintained for subsequent shipments.

The price for lot-fed beef is largely determined by the price for other beef product and the normal fluctuations facing these products will be reflected also in the lot-fed beef price. With regularity of supply and by contracting well ahead on shipments, these fluctuations can be minimized; however, as with other animal-raising farming, the price received for the end product will not always cover the cost of production.

There will also be some cattle coming off the feedlot which have not finished to the high standard required by the regular export buyer, and consequently these will be worth a lower value than the rest.

In fixing the price which can be paid to the producer, consideration has to be given to costs incurred from the farm gate to the market place. In these days of inflation, one must be prepared for continual increases. An example of increased costs which are very difficult to budget for is the probability of freight surcharges to cover increased bunkering costs because of the current oil shortage.

#### DOCUMENTATION

The preparation and despatch of correct shipping documents is a very exacting task. Each country has its own special requirements which must be strictly adhered to. If the shipping documents do not reach the buyer in time, then the clearance and distribution of the product will be delayed.

The transit time from New Zealand to Japan for the vessel carrying the cargo is about 10 days, and during that time

documents must be prepared, signatures on various forms be obtained and everything airmailed to arrive at destination ahead of the ship. If the veterinarian is not available to sign the health certificates, or a mail is missed for any reason, then another day may be lost.

#### FUTURE MARKETING PROSPECTS

One of the most vital requirements is a regular and adequate shipping service. If the frequency of sailings can be increased, the demand on processing facilities and storage space is lessened so that additional throughput can be arranged without increasing the size of the plant.

There is considerable room for New Zealand to increase shipments of chilled beef to Japan. We must not, however, become entirely reliant on one market for disposal of this product, but must service outlets wherever a market can be established to ensure a degree of security for the producer. An increased demand appears likely from tourist areas for the high-quality beef emanating from the feedlot.