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## EFFECTS OF EXCHANGE RATES

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I made the comment in the last issue of the ADF that “The venison prices according to “stuff.co.nz” are quite encouraging for producers.” This is not far from the truth as prices have been more or less stable for the past few years. However, the statement does not give any idea of what exporters, generally, have to contend with. The following hypothetical may give readers a glimpse into the frustrations, risks and variations in outcomes possible when exporting venison.

We all recognise there are a limited number of abattoirs in Australia willing to slaughter deer. This is true for the domestic market and it is even more restricted when it comes to export markets. The returns for the farmer depend entirely on the profitability of the next link in the chain – what we refer to as the “venison vendor”. There are many costs encountered by both domestic and exporting vendors, which are largely the same. I would expect that boning, storage and packaging costs are similar in both cases. There are significant differences in cost of slaughter for export as compared to domestic animals. Generally, it costs about \$20 more per animal to slaughter export stock when compared to a domestic kill. I am sure that this figure will vary but it is what I have experienced.

The following example outlines the dilemma that the exporter faces. Of course, at present, any Australian exporter has similar risks.

From a purely academic point of view I will make the following assumptions about our deer carcass, which is to be exported. The deer slaughtered has a Hot Standard Carcass Weight (HSCW) of 55kg. To make it simple, the slaughter fee could be \$55 meaning that it costs \$1/kg HSCW to the vendor. I will assume that 70% of the carcass is saleable and is comprised of 15% shoulder (8.25kg); 30% legs (16.5kg); 10% loin (5.5kg); 10% trim (5.5kg) and 5% miscellaneous (2.75kg). This makes a total weight of saleable meat to be 38.50kg. A complicating factor is the myriad of ways of selling the product. This example keeps things fairly simple.

I have generalized and rounded up and down some figures in this example. I received some help from a venison wholesaler in Victoria with regards to pricing. The table below outlines the possible variations in the returns of the exporter. Over the past year, the Euro and A\$ have varied between 0.74 and 0.82 – Euros per Australian dollar. For example, the Gross Returns in A\$ of the meat sold into Europe equals Yield x European Wholesale Price / Exchange Rate.

From this highly simplified table, we find that the gross return to the vendor, for the meat, varies between \$405 and \$365 – a variation of 10 to 11 %. There are other costs involved – kill fees (extra for halal), boning, packaging, freezing, storage, local and overseas transport, accommodation, advertising documentation, etc, etc. If all these sundry costs were to amount to \$150 per head, that would mean that the net return to the vendor is approximately \$255 (ER is 0.74) and about \$215 (ER is 0.82). In other words the net return per kg HSCW is between about \$4.64 and \$3.91/kg. So what is seemingly a small fluctuation in exchange rate can have a profound effect on profitability.

At present, with exchange rates being as high as they are, it makes it very difficult for exporters to remain profitable- depending on what they paid the farmer. Also, and this is a big problem in the Australian industry, there are not too many 55kg. carcasses produced. I am as much in shame as many other farmers - as the last three groups of animals I have sold averaged 41kg, 64kg and 90kg. HCW.

Section of Carcass	Yield Kg	Wholesale Price Euros/Kg	Gross Returns to Exporter	
			Exchange Rate <b>0.74</b>	Exchange Rate <b>0.82</b>
<b>SHOULDER</b>	8.25	4.00	44.59	40.24
<b>LEGS</b>	16.50	8.00	178.38	160.98
<b>LOIN</b>	5.50	20.00	148.65	134.15
<b>Trim</b>	5.50	3.00	22.30	20.12
<b>Misc</b>	2.75	3.00	11.15	10.06
<b>TOTALS</b>	<b>38.50</b>		<b>405.07</b>	<b>365.55</b>