International Meat Consultative Group
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BACKGROUND DISCUSSION PAPER ON CURRENT MARKET CONDITIONS
AND PROBABLE DEVELOPMENTS IN INTERNATIONAL TRADE IN BEEF
AND BOVINE ANIMALS

Note by the Secretariat

The present note is in three parts dealing respectively with importing countries (I), exporting countries (II), and with selected aspects of the general situation of international trade in the bovine sector (III). As regards sources used, an asterisk (*) alongside a particular country indicates that the text is reproduced or is based on information supplied by the country concerned as requested in GATT/AGT/1407. In other cases the following sources have been used: USDA, Livestock and Meat Situation, October 1977; Agriculture Canada, Market Commentary, Animals and Animal Products, October 1977; the United Kingdom Meat and Livestock Commission, International Market Survey, Autumn 1977; USDA, Foreign Agriculture, 17 October 1977; OECD, Report of the Committee for Agriculture on Market Outlook; and the replies to the model questionnaire (L/4168/Rev.1).
PART I - IMPORTING COUNTRIES

United States

1. Cattle feeders in the United States have responded to this summer's lower corn prices by increasing the number of cattle placed on feed. Placements in the seven States preparing monthly cattle on feed estimates were up 28 per cent in July and 7 per cent in August from the corresponding year earlier levels. With fed cattle marketings during this two-month period a little below a year earlier, the inventory of cattle on feed on 1 September 1977 rose to 4 per cent higher than on 1 September 1976.

2. This build-up in the number of cattle on feed suggests larger supplies of fed cattle during the next several months. This larger supply of fed cattle combined with a continuing relatively heavy slaughter of cows and grass fed steers and heifers, will yield a large supply of beef into early 1978. Forage supplies this fall and winter will have a large influence on the slaughter of cows and grass fed steers and heifers.

3. Although below the very high levels of last summer, commercial cattle slaughter and beef production in the United States this past summer were relatively large. Poor grazing conditions in many areas forced a large number of cattle to market that probably would not have been shipped if grazing conditions had been better. For this reason, the non-fed steer and heifer and cow segment of the slaughter held at relatively high levels during the past summer. This led to a third quarter beef production that was about 4 per cent below the corresponding year earlier total of 6,618 million pounds.

4. Beef production is expected to continue at a relatively high level in early 1978. The increased placements of cattle on feed this summer, and the expectation that they will continue to rise, will support increases in fed cattle slaughter into 1978. Fed cattle slaughter during the first quarter of next year will probably be slightly above the year earlier level. Year to year increases during the second quarter could exceed those of the first quarter.

5. A substantial reduction of cow slaughter could occur during the first half of 1978. Combined with a reduction in non-fed steer and heifer slaughter, this could result in a considerable decline in non-fed beef production.

6. Total commercial beef production during the first quarter of 1978 likely will be only slightly below the year earlier level. Larger declines in beef production are anticipated for the spring when production could be down 3 to 4 per cent. Good spring grazing conditions and a sharp reduction in non-fed steer and heifer slaughter will be required to accomplish this rate of reduction in beef production.
7. Beef production is expected to continue at a level through this winter that will prevent much rise in fed cattle prices. The larger supplies of fed cattle coming from the expanding feeding activity will account for much of this pressure. However, the large inventory of steers and heifers weighing over 500 pounds will also continue to support a relatively large non-fed slaughter.

8. The pricing pattern for fed cattle during the first quarter of 1978 is expected to be very similar to the fall quarter with more strength anticipated next spring. Good spring grazing conditions and a substantial reduction in cow and non-fed steer and heifer slaughter could be the impetus to cause prices to rise. Choice steers at Omaha could average in the $42 to $44 range next spring.

9. Large supplies of pork and broiler chickens will continue to provide competition for beef. Pork and broiler production is expected to be increasing in 1978 and this will temper price rises for beef.

10. The liquidation of the United States beef cow herd has continued during 1977. Poor grazing conditions and continuing depressed feeder cattle prices have been significant factors contributing to this liquidation. A high rate of liquidation could continue this fall and winter if forage supplies fail to meet needs.

11. Provided grazing conditions are good next spring, it is anticipated that feeder cattle prices will have increased enough to halt liquidation of the cow herd. The inventory of cows that have calved is expected to show a year to year decline on 1 January 1978, but a slight increase on 1 January 1979 is possible.

12. This will not, however, stop the decline in the inventory of all cattle and calves during this period. Year to year declines in the beginning of the year inventory of all cattle and calves will likely continue through 1979.

13. Meat imports subject to the Meat Import Law were about 54 million pounds below the corresponding year earlier level in early September. About 40 per cent of this reduction was due to reduced imports from Central American countries. The Dominican Republic exported only 2 million pounds of its 15 million pound voluntary restraint entitlement, and Costa Rica, El Salvador and Nicaragua were also below this restraint level. However, the largest shortfall was from Australia, the largest exporter of meat to the United States. As of 3 September, Australia had exported only 404 million pounds, about 60 per cent of its allotment of 653 million pounds for 1977. The remaining 249 million pounds likely will arrive in the United States during the last four months of the year.
14. This uneven distribution of imports during the year is partially the result of the Australian Meat Board allocation system and also of market conditions in the United States. The Australian Meat Board system of basing export entitlements to ship beef to the United States on the amount of meat an exporter ships to countries other than the United States had provided a strong incentive to ship meat to the Soviet Union and other markets, especially during the early part of the year. Also, the relatively low cow meat prices in the United States, and the general expectation that they would improve as the year progressed, encouraged exporters to ship later in the year. In order to meet their restraint level, the Australian Meat Board has advised exporters that any unused entitlement to ship to the United States in 1977 will be cancelled and subtracted from their 1978 entitlements as a penalty for not filling the United States restraint level. The influx of this beef during the last part of 1977 does not imply that all of it will be consumed during this period. Most of this imported meat is frozen boneless and can be stored for some time.

Canada

15. High cow numbers and a heavy heifer kill in recent years have been the two main factors underlying continued increases in Canadian cattle slaughter and beef production in 1977. Heavy cow slaughterings have continued, although down 5 per cent from the same period in 1976, but more importantly, heifer slaughter has been extremely heavy, showing an increase of 14 per cent during the January to September period. This increased total slaughter, combined with a 2 per cent increase in average carcass weight, has caused a 5 per cent increase in carcass beef production to September 1977 compared with the same period the previous year.

16. After increasing very rapidly during the third and fourth quarters of 1976, steer slaughter remained above year earlier levels during the first two quarters of 1977 but declined by 5 per cent during the third quarter. Heifer slaughter has held a fairly steady rate of increase from the third quarter of 1976, through the third quarter of 1977.

17. Cow slaughter and cow exports dropped significantly in 1977. Cow slaughter declined 11 per cent in the second quarter and about 2 per cent during the third quarter, following a modest increase in the first quarter. Cow exports of approximately 113,000 head during the first three quarters of 1977 were 30 per cent below the total for the same period last year.

18. The high level of production and the record level of stocks combined to produce a total beef supply for the first half of 1977 which was higher than a year earlier. However, decreases in cold storage stocks and sharply reduced beef imports since June have reduced total beef supplies for the year so far to a level below that of a year earlier.
19. Increased fed cattle marketings and heavy supplies of beef and other meats during the first half of 1977 were responsible for lower fed cattle prices compared with a year earlier. However, prices during June and July moved above those of a year earlier and maintained their strength during the third quarter, rallying even more strongly during September. Reduced beef supplies and some improvement in United States fed cattle prices were two factors responsible for this price strength.

20. Feeder cattle prices have followed the upward trend in fed cattle prices in 1977. Feeder calf prices during the fall of 1976 were above those of 1974 and 1975 but still low compared with those of the early 1970's. Prices for heavy feeders have indicated that feeder prices have improved in line with slaughter cattle during 1977, and have averaged above year earlier prices since July.

21. Canada's exports of dressed beef and veal to the United States during 1977 are limited by agreement to 75 million pounds product weight. Declining cow, non-fed steer and heifer slaughter in the United States, and the lower value of the Canadian dollar have created an active demand in the United States for Canadian dressed beef and veal. This suggests that the limit on exports to the United States will be reached. Exports to 24 September totalled 65.8 million pounds, 88 per cent of the quota.

22. Canadian imports of live cattle, particularly fed cattle were relatively insignificant during the first nine months of 1977. Fed cattle imports to 24 September were only 5,607 head compared with 98,993 head during the same period in 1976. Fed cattle prices in Canada to mid-September roughly paralleled those in the United States and apparently did not move sufficiently out of alignment to warrant any significant movement of fed cattle into Canada.

23. Limitation agreements on imported dressed beef and veal appear to have been effective in maintaining beef imports into Canada well below year-earlier levels. During the January to 24 September period imports from Australia were 53.6 million pounds, 91 per cent of the agreed limit, and those from New Zealand were 49.1 million pounds, 81 per cent of the quota. Imports from the United States are significantly lower than last year, only 41 per cent of the agreed limit by 24 September.

24. Low returns from cow-calf operations during 1976 is the main reason for the heavy female slaughter in Canada during 1976 and 1977, and thus for the further reduction in the national beef cow herd. Statistics Canada reports a 3 per cent reduction in the beef cow herd since 1 July 1976 and a similar decline of 3 per cent for the total cattle herd.

25. Indications are that beef production of domestic origin during the fourth quarter of 1977 and the first quarter of 1978 will fall below levels of a year earlier. Also, approximately 19 million pounds of beef remain to be imported before
the 1977 limits are reached. This import total will be approximately 25 million pounds less than what was imported during the same period of 1976. In addition, the rate of depletion of beef stocks in cold storage during the rest of 1977 is likely to decrease. These indications suggest that Canada's beef supply during the rest of the year and possibly the first quarter of 1978, in the absence of live imports for immediate slaughter, will be below the respective quarters in 1976 and 1977.

26. This reduction in beef supplies and fed cattle marketings in Canada suggests that fed cattle prices will at least maintain the strength shown in the third quarter. However, continued relatively high pork supplies and lower pork prices can be anticipated during the fall quarter with relatively large supplies of poultry meat. Combined with an indication of some slackening in beef demand during the fall quarter, this suggests that an average of Can$46 to Can$48/cwt. for Grade A1 and A2 steers at Toronto may be expected during the fourth quarter.

27. Projections of stronger demand and reduced supply of feeder stock during the fall quarter of 1977 indicate that feeder calf prices may average well above those of the comparable year earlier quarter. Heavier weight feeder steer prices can also be expected to strengthen, but the greatest price increases will likely be confined to the lighter weights.

28. While these expectations of higher feeder calf prices this fall will mean that cow-calf producers could receive their first profitable returns in several years, it is unlikely that they will be high enough to induce a sharp curtailment of either cow or heifer slaughter and thus growth in the cow herd during 1978. Since three years of depressed prices have preceded this situation, it will likely take a sustained period of relatively high feeder prices to bring cow and heifer slaughter below levels consistent with cow herd growth.

Japan

29. The number of cattle in Japan in February 1977 totalled 3,88 million, 4 per cent more than a year earlier. This continuation of the steady increase in herd size is in accordance with the aims of the Japanese Government to improve self-sufficiency. The average size of beef herds had risen to 5 compared with 4 in 1976.

30. Beef cattle slaughterings during the January to May period totalled 161,000 head, 5 per cent more than during the corresponding period of 1976. Dairy cattle slaughterings also increased by 16 per cent, but this was 18 per cent lower than during the first five months of 1975. Calf slaughterings, at 42,000 head, increased by 46 per cent but this total was also considerably lower than two years earlier.
31. Imports of beef and veal during January to July 1977 totalled 46,000 tons, 4 per cent less than during the corresponding period of 1976. More than 82 per cent of the total (38,000 tons) was of Australian origin, the same proportion as a year earlier. The quantity of beef imported from the United States declined by 14 per cent in the January to July period of 1977 to 4,580 tons while 2,667 tons were imported from New Zealand, 12 per cent more than a year earlier.

32. Japan has announced a beef import quota of 50,000 tons for the second half of the fiscal year (October 1977 to March 1978). This brings the total quota for the 1977/78 year to 90,000 tons compared with 85,000 tons for the previous fiscal year. This quota for the second half of the year includes 10,000 tons of beef to be used for special purposes such as school lunches.

33. The annual quota for the import of live calves, which may be imported duty free, was announced in June and, as a result, 6,000 calves may be imported by four co-operative farm groups before March 1978. In the 1976/77 fiscal year, the quota, also for 6,000 head, was not issued until November 1976, and only 250 calves were imported, all from North America.

34. Wholesale beef prices in Tokyo were depressed in March due to heavy supplies, particularly of dairy steer beef, but they recovered in April before falling again in May and June. Prices for second grade Wagyu steers in June averaged ¥ 1,596 per kg. dressed weight, 6 per cent lower than a year earlier, but still within the price stabilization band of ¥ 1,303 to ¥ 1,730 per kg. Second grade dairy steer prices averaged ¥ 1,259 per kg, dressed weight, 8 per cent less than in June 1976, and also within the stabilization band of ¥ 1,061 to ¥ 1,408.

European Community

35. The EEC reference price for cattle showed little change between May and July and remained below the intervention price throughout this period. In mid-August, the reference price was 8 per cent higher than a year earlier but only 88.08 per cent of the guide price. Since the middle of June, the Belgian and Luxembourg reference prices have been higher than the intervention price. However, the highest price level was in France where, by the third week of August, the reference price was above 99 per cent of the guide price.

36. Imports of cattle, calves, beef and veal from third countries have continued to be subject to payment of 11¾ per cent of the basic EEC levy because the reference price has remained below the intervention price. Under two concessionary levy schemes for manufacturing grade beef, a quota was fixed for the import of 10,000 tons (bone-in equivalent) from non-EEC countries in the third quarter of 1977. Over 5,700 tons of this quantity was to be imported into Western Germany while Italy was to import 1,700 tons and the Netherlands 1,500 tons. A special quota for the import from third countries of young cattle for fattening during the July to September period was also fixed with most of these animals to be imported to Italy.
37. Beef purchases under the permanent intervention arrangements between the end of April and mid-August 1977 totalled 65,000 tons compared with purchases of over 127,000 tons during the same period a year earlier. Purchases in Western Germany and the Irish Republic totalled 19,000 tons and 16,000 tons respectively, while intervention buying in France continued to be suspended throughout the period to mid-August. Total EEC stocks of intervention beef in mid-August amounted to over 317,000 tons product weight, of which 178,000 tons were bone-in beef, 82,000 tons boneless beef and 57,000 tons canned. Small amounts of canned intervention beef were sold under tenders held in July and August and fixed price sales of boneless beef were held between June and August. A further fixed price sale of boneless beef was held in late August and was subject to new regulations concerning the sale of intervention beef stored in countries other than the country of origins. Following a period of drought in Sicily, it was agreed that producers in that area would be allowed to sell a maximum of 1,200 tons of cow beef into intervention in the period from 1 September to 31 October.

38. A private storage scheme for beef forequarters, with the rates of aid set by tender, was introduced on 6 June under which 3,800 tons of beef were put into store for five months and 1,900 tons stored for six months. On 18 July, a scheme for the payment of fixed rates of aid for the storage forequarters became operative. By mid-August, contracts had been taken out for the storage of 27,000 tons. Most of this beef is being stored in France (6,000 tons) and Western Germany (9,000 tons). This scheme was terminated on 2 September.

39. The EEC restitution payments on exports of live animals (over 300 kgs. live-weight) and most categories of beef and veal to third countries were increased by about 12 per cent with effect from 1 August.

40. With continuing high stocks and with intervention purchases still being made on a regular basis to support the market, prospects for increased import demand in the EEC in 1978 are not encouraging despite the slightly declining production trend.

Eastern Europe and the USSR

41. Cattle numbers on State and collective farms in the USSR totalled 90.2 million in July 1977, 1 per cent more than a year earlier. Cow numbers increased by nearly 2 per cent to 28.8 million. Beef and veal production is expected to increase to 6.5 million tons (carcass weight equivalent) in 1977, 5 per cent more than in 1976. As a result of this increase in home production, meat imports are likely to decline to about 325,000 tons (product weight) compared with approximately 375,000 tons last year. However, due to the continuing low level of meat production in Eastern Europe, a higher proportion of the USSR imports so far have been of Australian and New Zealand origin. In the year ended June 1977, the USSR imported more than 66,000 tons (shipped weight) of beef and veal from Australia compared with only
25,000 tons a year earlier. Between October 1976 and June 1977, more than
31,000 tons were imported from New Zealand compared with 5,000 tons in the corre­
ponding months of 1975/76.

42. The outlook for 1978 is for a further recovery of total meat production in
the USSR and some of the Eastern European countries. In the USSR favourable produc­
tion conditions have led to an increase in the cattle numbers as well as in pork and
poultry numbers on State owned and collective farms so far in 1977. Some further
increase, but at a slower rate, could be expected in 1978 for the USSR, despite
the recent announcement of a lower than expected 1977 grain harvest. A more
rapid rate of recovery could be anticipated in some of the Eastern European
countries. This implies that at least pigmeat and poultry production would
recover further in 1978 from the sharp drop in 1976.

Other importing countries

43. Estimates or forecasts provided either explicitly or implicitly in recent
replies to the model questionnaire indicate the following levels of imports in
1977 and 1978 for some other importing countries (’000 tons carcass weight

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PART II - EXPORTING COUNTRIES

Argentina

44. Results of the June 1977 census are not yet available but it is expected that total cattle numbers will be higher than the 1976 total of 53.2 million head. Detailed results of the 1976 census have only recently been released with corresponding figures for 1974. Cow numbers in 1976 totalled 23.5 million, 10 per cent more than in 1974. The most important cattle-rearing region, containing some 38 per cent of the national herd, is the area around Buenos Aires. However, the increase in the cattle population of this region between 1974 and 1976 was below the national average.

45. Slaughterings of cattle and calves during the April to June quarter amounted to 3.9 million, 13 per cent more than during the second quarter of 1976. Production of beef and veal during the second quarter of 1977 amounted to 766,000 tons carcass weight equivalent, 13 per cent higher than the corresponding quarter a year earlier. Production for export totalled 148,000 tons carcass weight, 5 per cent more than during the April to June period of 1976 and 24 per cent more than in the first quarter of 1977. Exports during the second quarter of 1977 thus accounted for 19 per cent of production compared with 18 per cent in the first quarter and 20 per cent for the second quarter a year earlier. The average carcass weight of the animals slaughtered for export during the April to June quarter this year was 230 kgs. compared with 189 kgs. for animals slaughtered for domestic consumption. This reflects the different grades of animals used for export and consumption. Average carcass weights for both uses have declined considerably in 1975/77 compared with 1972/74. This is a reflection of the different price situation in these two periods. During 1972/74, unit prices were subject to a ceiling level and this provided an incentive to produce heavier animals. Since 1975 fluctuating prices have led producers to sell at lower weights.

46. Exports of chilled and frozen beef and veal during the April to June quarter amounted to over 73,000 tons product weight, 26 per cent more than a year earlier. Of this total, almost 23,000 tons were shipped to the EEC with Western Germany and Italy being the main outlets. Spain and the USSR purchased 13,000 and 7,000 tons respectively. Canned beef exports, however, declined by 23 per cent to 11,000 tons and shipments of cooked frozen beef, at 6,000 tons were 5 per cent lower than for the April to June quarter of 1976. In 1977, total exports are expected to be at about the same level as in 1976 (533,000 tons carcass weight equivalent), as no significant increase in shipments to the EEC seems likely.

47. Cattle prices weakened steadily in the first four months of 1977 but began to strengthen in May before showing a sharp increase in June to levels above those in January. In July, steer prices at Liniers averaged 151.68 pesos per kg., about three times the level of a year earlier and 8 per cent higher than in January.
48. The Argentine Government has begun a new campaign for the eradication of hoof and mouth disease. Most of the South of the country, Patagonia, is already disease-free and it is planned gradually to extend the eradication of the disease northwards. The first area to be involved is about 8.5 million hectares and lies to the south of the Buenos Aires and La Pampa provinces. Nearly 13,000 farms, with 3.85 million cattle, 2.52 million sheep and 63,000 pigs are involved. There were nearly 2,700 cases of hoof and mouth disease reported in Argentina during the January to July period this year.

Australia*

49. Cattle numbers declined by 4.1 per cent to an estimated 32.06 million in the year ended March 1977, and a further substantial reduction is expected by next March as producers reduce the size of their herds in the face of continuing low or negative net returns from beef. The production potential of the herd is estimated to have been significantly reduced during the past year with heavy slaughtering of female stock and calves.

50. During the first eight months of 1977, cows and heifers accounted for 52 per cent of all adult cattle slaughtered, thus continuing the trend which became apparent in 1976 when 47 per cent of adult cattle slaughtered were female. (This compares with a more usual figure of 35 per cent to 40 per cent and is similar to the previous peak reached in the 1965-66 drought.) Calf slaughterings which were at a record level in 1976 have eased somewhat in recent months but still remain at relatively high levels.

51. Increased slaughterings of adult cattle are estimated to result in production of beef and veal reaching a record of 1.96 million tons in 1977. However, the marked deterioration in seasonal conditions in parts of southern Australia, following an abnormally dry autumn and winter, may move production closer to 2.0 million tons. Large areas of Queensland are also experiencing very dry seasonal conditions but the advent of summer rains should alleviate this situation.

52. Exports of beef and veal in 1977 are estimated to increase to a record of 975,000 tons (carcass weight equivalent), largely as a result of the greater availability of beef and substantial shipments to such non-traditional markets as the USSR, Eastern Europe and Egypt. However, the United States remains the major market for Australian beef with an estimated 440,000 tons (carcass weight) likely to be shipped there during the year.

53. Domestic per caput consumption of beef and veal is estimated to remain close to the 65 kgs. recorded in 1976, as beef prices at retail level are unlikely to show any significant increase in real terms. Saleyard prices of cattle are expected to rise only marginally in 1977. The weighted Australian average price of first and second export quality ox (301-320 kgs. dressed weight) for the first seven months of 1977 was 50 cents per kg. compared with 48.3 cents per kg. for the whole of 1976.
Output of beef and veal in 1978 is likely to be affected by the smaller size of the herd, the reduced numbers of breeding stock, seasonal conditions, and the liquidity situation of producers. Based on an assumption of relatively normal seasonal conditions during the year, production is forecast to decline by 13 per cent to around 1.7 million tons. This reflects an expected reduced availability of stock suitable for slaughter, and a move on the part of producers to begin stabilising the size of their herds.

A reduction in supplies of cattle to the market together with a likely substantial improvement in export demand from the North American market after mid-year should result in a moderate improvement in average saleyard prices for cattle. The rise in saleyard prices is expected to be reflected in significantly higher retail prices, a decline in per caput consumption of beef and veal and the diversion of a greater proportion of output to the export market. Exports are thus forecast to decline by only 10 per cent to about 880,000 tons (carcass weight equivalent) with the United States remaining the major market.

Although saleyard prices are forecast to improve moderately in 1978, the effect of this on the profitability of beef raising is likely to be mostly offset by rising input costs. A recently released bureau of agricultural economics study suggests that if average saleyard prices of cattle rose 25 per cent from their present level, around 20 per cent of the 50,000 specialist beef producers in Australia would still earn negative net incomes.

Cattle numbers in New Zealand are declining. Final figures from the January census show that there were 9.472 million cattle, 3.1 per cent less than the previous year. Beef cattle accounted for 87 per cent of this reduction, and contrary to expectations beef cow numbers were virtually unchanged. The Ministry of Agriculture and Fisheries now estimates that the June 1977 cattle population was about 8.75 million, 6 per cent less than the peak of 9.311 million in June 1974. Cattle numbers at June and January 1978 are expected to be close to year-earlier levels.

Adult cattle slaughterings during 1976/77 have continued at high levels and are expected to total 2.31 million, only 13.1 per cent less than the previous year's record. Abnormally high numbers of heifers have been slaughtered both this year and last which will limit the scope for increases in beef cow numbers during the next two years. The current low profitability of beef production and producers' lack of confidence are further reflected in the high level of calf slaughterings, currently only 0.7 per cent less than at the same time last year.
59. Beef and veal production for the year ending 30 September 1977 is currently forecast at 548,000 tons (bone in) and exports of 255,000 tons (product weight) are expected. The 5 per cent increase in exports primarily reflects the reduction in stock levels.

60. Beef consumption during 1976/77 has been substantially greater than last year's record levels.

61. New Zealand is currently expecting to produce 487,000 tons (bone in) beef and veal during 1977/78 with exports of about 210,000 tons (product weight) likely. However, much will depend on developments in the cow and heifer slaughter rates and in local consumption trends.

62. The recent decline in overseas beef prices, which are currently 6 per cent lower than a year ago means that producer prices are at the minimum levels determined by the Meat Export Prices Committee.

Uruguay

63. A new emphasis on beef for domestic consumption and an apparent shortage of finished cattle indicate a lower level of beef exports during 1977 than in 1976. Beef exports during the January-May period this year totalled 55,000 tons (carcass weight equivalent) compared with 91,000 tons during the comparable period in 1976, a decline of 39 per cent.

64. Recent Government actions indicating emphasis on domestic consumption of beef rather than on beef exports include a decree freeing steers under two years, bulls, and young bulls from price control and establishment of a tax of about $140 per ton on beef exports.

65. Trade sources have reported that the Government has requested meat export plants not to enter into new export contracts and to make beef available for domestic consumption. This suspension apparently does not affect meat already sold for export but not yet shipped.

66. These Government actions suggest a reversal of previous policies. Last year Uruguay's beef exports were maintained even when domestic beef supplies virtually disappeared during the July to November period. These supplies did not return to normal levels until early in 1977.

67. Uruguay's beef supplies normally increase in the spring (beginning in September) and some beef for export may be released then.
PART III - GENERAL

68. The plentiful supplies and low prices of coarse grains, and the increased supply of soya beans, will have a generally stimulating effect on meat production. This effect will be greatest in countries where livestock producers have access to supplies at the lower prices ruling on world markets, and where pigmeat and poultry meat are of importance, such as the United States and Canada. It is expected that lower feed grain prices will help to bring the liquidation phase of the cattle cycle to an end in 1978 in these two countries, as the greater profitability of feed lots resulting from lower feed grain prices should reinforce the increase in profitability to be expected in 1978 from higher prices for feeder cattle as their numbers decline. Provided weather conditions remain favourable, thereby preventing any forced slaughter of range cattle, a higher proportion of United States production is likely to consist of fed beef, and some rise may be expected in manufacturing grade beef prices. This rise will be limited by the expected higher increase in pigmeat and poultry meat production due to the lower feed grain and soya bean meal prices, which should offset the reduction in beef and veal supplies in 1978, which is estimated at 5 per cent. If this increase in manufacturing grade beef prices in fact takes place, it will trigger the much awaited improvement in international market prices, as the trade between Australia and New Zealand and the United States in such beef is one of the major factors in the market.

69. There are no prospects for an improvement in the international beef market in 1978 resulting from an increase in import demand by the EEC. Although the EEC production trend is downwards, the decline expected in 1978 is very small, the stock level is high and intervention purchases are still being made on a regular basis to sustain the market. Furthermore, economic growth remains hesitant and unemployment high so that demand for beef and veal is likely to remain depressed. Here again, the interactions between the feed and livestock sector are likely to aggravate this situation insofar as sharply lower soya bean meal prices, and possibly slightly lower cereal prices, will stimulate pigmeat and poultry production, which in turn will lead to a downward pressure on beef demand and prices. The longer term prospects for imports are also discouraging, for 1978 should mark the trough of the production cycle and production should start to rise thereafter.

70. Beef imports in Japan in 1978 will again be regulated by quotas, the level of which is not fixed yet but which will likely depend on the internal beef demand-supply situation which will be characterized by a high level of domestic beef supplies. On the other hand, it seems likely that cheap feed supplies will induce further expansion of the pigmeat and poultry sector.
71. In Australia the liquidation of the cattle herd continues at a faster rate than expected, reflecting the delay in the improvement of world markets, recent dry weather conditions, and the greater attractiveness of sheep production. Though the rate of liquidation has started to slow down, it is expected to remain at a high level throughout the Australian summer. Another key factor influencing the Australian cattle herd is the trend in the North American beef economy which in turn is affected by the feed grain situation, as described above. Beef and veal production has been at a high level in 1977, making Australia, along with Japan, one of the few countries to experience an increase this year. However, it is likely to fall fairly sharply in 1978, as will supplies for export, as domestic consumption is expected to remain unchanged. New Zealand is experiencing a sharp fall in production this year, and a similar reduction is expected next year. In both Australia and New Zealand sheep meat production has fallen in 1977, but some recovery can be expected in 1978.

72. An important feature in 1977 has been demand for non-traditional markets such as the USSR, Eastern Europe and the Middle East. Australia and New Zealand have been the main beneficiaries. With increasing domestic beef production it may be doubted whether the volume of imports by Eastern Europe and the USSR will remain as high as they have been recently. More confidence may be felt as to the long term nature of the increase in demand both for beef and sheep meat in the Middle East.

73. These observations would indicate that a cautious approach should be adopted in relation to the possibility of any further increase in import demand for beef in 1978. However, contrary to the 1977 situation, beef and veal production is expected to decline in all major exporting countries in 1978 and particularly so in Australia. Furthermore, beef stocks in New Zealand are expected to be largely run down in 1977. Therefore, beef export availabilities in 1978 should decline, leading to an increase in prices in international trade.

74. It should be recognized, however, that in Australia, per capita beef consumption is currently running at the very high level of approximately 65 kgs., compared with an average of about 40 kgs. during the 1970 to 1974 period. An improvement in international beef prices will inevitably be reflected in Australian domestic market prices. With Australian beef consumption very price elastic, it is most likely that domestic consumption would decline, thus freeing a larger proportion of the supply for export and partly offsetting the effect of decreasing production on export availabilities. To a lesser extent, the same can be expected to happen in New Zealand. Thus, in a situation of improving international beef price levels, changes in the level of per capita consumption in some major exporting countries could limit the expected increase in the upward pressure on beef prices.