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). In the preparation of this document the following sources have been used: USDA, Livestock and Meat Situation, February 1978; USDA, Foreign Agriculture, 6 February 1978; USDA, Foreign Agricultural Circular, Livestock and Meat, January 1978; Agriculture Canada, Market Commentary, Animals and Animal Products, December 1977; the United Kingdom Meat and Livestock Commission, International Market Survey, Spring 1978; and the three replies to the model questionnaire (L/4168/Rev.1) received by 31 March.
1. The 1 January 1978 inventory of all cattle and calves on farms in the United States was 116.3 million head, down 5 per cent from the year earlier. This was the third consecutive year in which the inventory declined and represented a drop of almost 16 million head since the peak in 1975, the sharpest drop in history. The anticipated levels of slaughter for 1978 and the likely size of this year's calf crop point to another decline in the inventory this year, but the rate of decline is expected to be slower than in any of the previous three years.

2. The cow herd on 1 January 1978 was 49.7 million head, about 5 per cent below last year, with almost all of this decline occurring in beef cows. The continued high level of cow slaughter during 1977 was greater than the number of heifers added to the breeding herd. The number of heifers held for beef cow replacements showed another sharp decline of 11 per cent from a year earlier, reflecting the poor financial condition of many cattlemen.

3. The 1 January 1978 inventory of cattle on feed, in the twenty-three States which collect this information, was 7 per cent above the corresponding year earlier total. This larger number of cattle on feed suggests increased fed cattle marketings during the next several months. In January, producers reported intentions to market slightly more than 6.5 million head of fed cattle during the January-March period, about 1 per cent more than during the same months a year earlier. Based on past relationships between the 1 January inventory in the heavier weight groups and first quarter fed cattle marketings, one would expect marketings to fall a little below 6.5 million head. However, if feeders continue to market cattle with minimum finish, the marketing intention appears realistic.

4. An increase of almost 9 per cent was reported in the number of steers weighing 700 to 899 pounds plus heifers weighing 500 to 699 pounds. The number in these weight groups is normally a good indicator of second quarter fed cattle marketings. However, if more cattle are marketed during the first quarter than suggested by the inventory, second quarter marketings could fall below those indicated from this relationship. This would be even more noticeable if the shift toward lighter weight placements continues. Currently, an increase of 7 to 9 per cent in fed cattle marketings during the second quarter seems likely.
5. During recent months the rate of turnover of cattle in feedlots has been rapid as feeders placed heavier animals and marketed many of them with minimum finish. Producers are now shifting back to lighter weight placement animals and this will slow the rate of turnover as feeding periods are lengthened. Placements in feedlots have increased significantly in recent months and were at record levels during the last half of 1977, exceeding the year earlier level by 11 per cent.

6. Placements of cattle on feed during the first half of 1978 are expected to exceed year earlier levels, resulting in an increase of 4 to 6 per cent in fed cattle marketings during the second half of the year and for the year as a whole. At this level, fed cattle could account for 67 per cent or more of commercial cattle slaughter, compared with 62 per cent in 1977 and representing a substantial increase from the 1975 low of 52 per cent.

7. Current prospects suggest a modest decline of 2 to 4 per cent in total beef production in the United States during 1978. Production during the first half of the year is expected to about equal the year earlier level with most of the reduction expected during the second half. This anticipated decline in production will continue the downward trend which began in 1977 when production declined about 680 million pounds from the record 1976 level. Even though fed cattle accounted for a higher proportion of commercial slaughter in 1977 than in 1976, average dressed carcass weights were actually lower as cattle feeders marketed a large number of cattle with minimum finish. These lighter weights caused production to decline more than 2.5 per cent although the number of cattle slaughtered was down less than 2 per cent.

8. The slaughter mix is expected to continue to change in 1978, consisting of more fed cattle and fewer non-fed steers, heifers and cows. Cow slaughter, the principal source of non-fed or lean beef production in the United States, is expected to drop sharply in 1978. Liquidation of the cow herd continued in 1977 when almost 9.9 million cows were slaughtered but, recent rises in feeder cattle prices and improved forage supplies are stabilizing factors which are expected to slow this liquidation process. With good grazing conditions this year, cow slaughter is expected to decline 14 to 18 per cent.

9. A substantial decline in the slaughter of steers and heifers directly from pasture is expected in 1978, with forage supplies and feedlot demand for replacement animals largely determining the magnitude of this decline. With good grazing conditions and further strength in the cattle market later this year, a decline of about one third in the slaughter of non-fed steers and heifers is expected. This decline is expected to occur after the first quarter.
10. The slaughter of non-fed cattle has been declining since the peak of almost 20 million head in 1975. A substantial reduction in the domestic supply of non-fed or lean beef will result if this slaughter decline continues as expected.

11. The 1 January 1978 supply of feeder animals outside feedlots was 9 per cent below the year earlier level, with a sharp decline reported for calves less than 500 pounds. This decline in the supply of lighter weight feeders, along with lower feed costs, is being reflected in current prices for these animals. During January, prices for choice feeders weighing less than 500 pounds moved above $45 on many markets.

12. Although the supply of feeder cattle is down, it is still ample to support year to year increases in the placements on feed. It is anticipated that calf slaughter during 1978 will drop substantially below the level of the last two years and, with the decline forecast for non-fed steer and heifer slaughter, there will be more available for feeding.

13. With the smaller cattle inventory and expected feed supplies, higher prices for all classes of cattle are expected in the United States this year. As cattle prices increase, the cattle herd should stabilize, in turn, further strengthening cattle prices and encouraging cattlemen to expand the herd in future years.

14. The anticipated level of fed cattle marketing is expected to hold fed cattle prices near the January level, about $5 per hundredweight above the year earlier level, at least until late spring. As fed cattle marketings increase in late winter and early spring, the larger fed beef supply may cause some drop in prices to $42 to $44 per hundredweight for Choice steers at Omaha. Good spring grazing conditions to support a sizeable drop in non-fed slaughter would help support this level of fed cattle prices. However, larger supplies of pork and broiler chicken will temper beef price rises.

15. Further strength in fed cattle prices is expected during the second half of 1978, to about $45 per hundredweight. However, pork and broiler chicken supplies are also expected to increase during the last half of the year and will continue to provide strong competition for beef.

16. The recent strength in feeder cattle prices is expected to continue, likely climbing to near $50 per hundredweight during the second half of 1978. Lighter weight feeder cattle will probably continue to sell at a premium to yearlings.
17. Longer range cattle price prospects for producers continue to look favourable. The reduced cattle inventory points to further declines in beef supplies during the next few years. With rising consumer income, it is anticipated that cattle prices will continue their upward trend. Supply prospects for competing meats, which can adjust much quicker than beef, will have a significant impact on the amount by which cattle prices rise.

18. Per capita consumption of beef and veal in the United States in 1978 is forecast at 55 kg. (carcass weight equivalent), a decrease of 3.5 per cent from the 1977 estimate of 57 kg. and 5.2 per cent lower than the peak of 58 kg. by recorded 1976.

19. The United States Government has reached agreements with the thirteen major exporters of fresh, chilled or frozen beef and veal, mutton and goat meat to the United States, that they will voluntarily limit their exports of these meats to the United States during 1978 to less than the Meat Import Law quota trigger level of 1,302.3 million pounds, product weight. For 1977, this trigger level was 1,281.9 million pounds and actual imports totalled 1,249.8 million pounds, product weight.

20. Total United States imports of beef and veal in 1978, most of which will be subject to the Meat Import Law voluntary restraint agreements, are expected to rise to 1,685 million pounds, carcass weight equivalent, an increase of nearly 4 per cent from the 1977 total of 1,618 million pounds.

Canada

21. The total number of cattle on farms in Canada on 1 July 1977 was 14.7 million head, a decline of 3 per cent from the corresponding total one year earlier. Heavy slaughter of female cattle brought about a drop of 3 per cent in the inventory of beef cows and a reduction of 6 per cent in the number of beef heifers compared with one year earlier. Although beef cow marketings have been falling since the fourth quarter of 1976, increases in beef heifer slaughter have maintained total female marketings above year-earlier levels. Even with declines in female marketings, it could be some time before cow herd growth occurs. Therefore, beef cow numbers are expected to decrease again through most of 1978. It is possible that female marketings will decrease enough during 1978 to allow an increase in beef cow numbers by 1 January 1979, but this possibility is questioned by some experts.

22. The decline in steer marketings of domestic origin during the second half of 1977, combined with the lower number reported on farms on 1 July 1977 (minus 9 per cent) suggests that Canada has entered a new phase of the current cattle cycle. Decreases from year-earlier levels of
steer slaughter can be expected through 1978. Similarly, heifer slaughter is expected to fall below year-earlier levels through the year in light of the fact that Statistics Canada reported that on 1 July 1977 there were 6 per cent fewer beef heifers on farms than one year earlier, and 2 per cent fewer for market purposes. In addition, it is likely that the relatively high feeder cattle prices during recent months will induce more heifer breeding than in 1976 or 1977. These factors, combined with the expected magnitude of beef heifer slaughter during 1978, suggest that decreases through 1978 of from 3 to 5 per cent can be expected for total fed cattle slaughter of domestic origin.

23. However, low feed grain prices combined with unexpectedly high cattle prices during the last quarter of 1977 suggest that a larger number of calves may have been placed in feedlots. Therefore, it is expected that fed cattle slaughter will peak or be bunched in the second and early in the third quarters of 1978. Cow marketings and slaughter are also expected to decline. In summary, total cattle slaughter in 1978 is expected to be from 4 to 6 per cent below the 1977 level, with slaughter of domestic origin the furthest below the year-earlier level during the second half of 1978.

24. It is expected that a proportionately greater number of animals slaughtered in 1978 will be fed (A grade) rather than non-fed, as compared with 1977. As a result, average carcass weights will likely rise and beef production will likely decline proportionately less than cattle slaughter.

25. This reduced slaughter, and the lower value of the Canadian dollar relative to the United States dollar, indicate that Canadian prices for fed cattle will average above those for 1977. If United States fed cattle prices move as forecast, then prices for Grade A1 and A2 steers at Toronto can be expected to average Can$46 to Can$48 per hundredweight during the first half of 1978 and from Can$49 to Can$51 during the second half. At these prices it is likely that Canada would be at or close to an import basis for fed cattle from the United States at times during 1978.

26. The demand for feeder cattle in 1978 will continue to be influenced by prices for fed cattle and feed grains. Therefore, the prediction is that relative price strength should be maintained. Ample supplies of feed and feed grain will be available on the Prairies and in Ontario during 1978.

27. During the fourth quarter of 1977, feeder calves were selling at a substantial premium to heavier weight feeders. As the calf supply diminishes through the first half of 1978, prices for heavier weight feeders can be expected to advance more strongly. For example, 600 to 700 pound feeder steers at Edmonton are expected to average about Can$45 per hundredweight through the first half of 1978.
28. Canada will continue to be a net importer of beef and veal in 1978 with total imports projected at 97,000 tons (carcass weight equivalent), the same as in 1977. Exports of beef and veal are projected at 60,000 tons (C.W.E.) a small increase from the 1977 total.

29. Canada's 1978 import limitation agreements for fresh, chilled and frozen beef and veal allow imports from the United States, Australia and New Zealand of 67,000 tons (product weight), a slight increase from the 1977 limit of 66,000 tons.

Japan

30. Because of an expanding dairy herd, cattle numbers in Japan at the beginning of 1978 increased by an estimated 2 per cent from the year earlier level, the third consecutive year that the total has increased. Since the breeding herd is still expanding, it is expected that cattle numbers will again show an increase by the beginning of 1979.

31. Japan's beef and veal production during 1978 is expected to reach 370,000 tons (C.W.E.), an increase of 4 per cent from the estimated 1977 total of 355,000 tons. Most of this increase is expected to be derived from the slaughter of dairy steers.

32. Wholesale beef prices weakened slightly during the latter half of 1977 and, in the first week of February 1978, the price of second grade Wagyu steers averaged ¥1,530 per kg., 10 per cent less than a year earlier. Second grade dairy steers averaged ¥1,280 per kg., compared with ¥1,490 in November 1976.

33. The import quota for the second half of the fiscal year ending in March 1978 was increased by 5,000 tons bringing the total for the 1977/78 fiscal year to 95,000 tons (product weight). The Japanese Ministry of Agriculture and Forestry has announced an import quota for the first half of the 1978/79 fiscal year (April to September) of 40,000 tons compared with 35,000 tons for the first half of the 1977/78 fiscal year. This increase is due to a larger allocation of high quality beef for hotel use.

34. Effective 1 November 1977, Japan raised the surcharge on fresh, chilled and frozen beef imports an average of 64 per cent. This increase was reportedly intended to absorb profits accruing to Japanese importers from the appreciation of the yen and from a recent drop in world beef prices. However, as an incentive to encourage retail stores to comply with new and slightly lower target retail prices for beef, those stores selling at the new target prices will be allocated chilled beef at the previous surcharge level.
35. It is estimated that there were approximately 77,000,000 head of cattle and calves in the European Community at the beginning of 1978, a slight increase from the year earlier total of 76,872,000 head. The measures introduced in April 1977 to alleviate the EC surplus dairy problem are apparently having little impact on cow slaughter in most member States.

36. The total production of beef and veal in the Community in 1978 is forecast to remain at about the estimated 1977 total of 6.34 million tons (C.W.E.). A larger output in France, the United Kingdom and West Germany is expected to offset lower production in the Netherlands, Ireland and Belgium.

37. The Community reference price for cattle strengthened slightly between November and January but as a result of the devaluation of the French and Italian representative rates on 1 February and of the United Kingdom green pound on 2 February, the reference price declined by 2 per cent in terms of units of account (U.A.) in the first week of February. In mid-February the reference price, at 107.09 U.A. per 100 kg. (live weight), was only 87 per cent of the guide price. However, in France, Italy and Luxembourg the reference prices since the beginning of 1978 have remained above the EC intervention price.

38. Since the reference price has remained below 90 per cent of the guide price, intervention stocks of beef continued to grow rapidly. Purchases of intervention beef in the EC in November and December 1977 amounted to about 42,000 tons bringing the total purchased during 1977 to almost 260,000 tons. More than 97,000 tons were purchased in the Irish Republic and purchases in Western Germany and the United Kingdom amounted to 76,000 tons and 15,000 tons respectively. No beef intervention purchases were made in France or Luxembourg in 1977. Sales of intervention beef totalled almost 166,000 tons (product weight) during 1977, of which sales from West German stocks amounted to 55,000 tons and Irish Republic and United Kingdom stocks 30,000 tons and 3,400 tons respectively. Total public stocks of intervention beef on 31 December 1977 amounted to 362,000 tons. Of this total, West Germany accounted for 119,000 tons, the Irish Republic for 81,000 tons and the United Kingdom for 12,500 tons. During January 1978, a further 15,000 tons of beef were purchased for intervention and 12,000 tons were sold.
39. Under the EC fixed rate private storage aid scheme, which operated between 28 November and 30 December 1977, contracts were taken out for the storage of more than 36,000 tons, of which 14,000 tons are to be stored for four months and 22,000 tons for five months. This scheme was most popular in Western Germany where contracts were signed for almost 11,000 tons of beef, with the Irish Republic and the United Kingdom accounting for 7,000 tons and 4,700 tons respectively.

40. Because of high retail beef prices, total beef consumption, which is estimated to have dropped slightly in 1977, is expected to increase very little in 1978. The Community is expected to continue to have a deficit of manufacturing quality beef but a surplus of higher quality cuts.

41. Total EC imports of beef and veal during 1978 are forecast at 475,000 tons (carcass weight equivalent) a slight increase from the estimated 1977 total of 470,000 tons.

42. The EC Council of Ministers agreed in December 1977 to allow 50,000 tons of manufacturing grade beef to be imported into the Community in 1978 under the balance sheet arrangements. However, it was also decided that the right to import manufacturing beef under this scheme could only be earned by the purchase of an equivalent quantity of beef from EC intervention stocks, i.e. under a "jumelage" scheme. During the first quarter of 1978 13,500 tons of bone-in-beef and 10,000 tons of boneless beef were on offer under this scheme. Prices were set by tenders which were adjudicated in mid-February. A total of 12,800 tons of beef (bone-in equivalent) were sold, earning the right to import 5,000 tons under scheme A (preserved beef products) and 7,800 tons under scheme B (other manufacturing uses).

43. Total EC exports of beef and veal during 1978 have been forecast at 110,000 tons (carcass weight equivalent) compared with the 1977 estimate of 130,000 tons.

USSR

44. As of 1 January 1978, the total number of cattle in the USSR is estimated at 112.5 million head, an increase of 2 per cent from the corresponding year earlier level. Cow numbers are estimated to also be 2 per cent higher than a year earlier at 43.0 million head.

45. It would appear that this increase in inventory is a direct result of the Government's all-out effort to rebuild the livestock industry from the reduced levels of the previous two years. It is expected that herd rebuilding will continue throughout 1978 if weather conditions are good and if sufficient grain and forage crops are available.
46. Total meat production during 1977 is estimated at 14.7 million tons, an increase of 11 per cent from the 1976 total. Beef and veal production in 1977 is estimated at 6.7 million tons (carcass weight equivalent), an increase of 9.8 per cent from the 1976 total of 6.1 million tons. A mid-October speech by the Deputy Minister of Agriculture indicated plans to increase meat production in 1978 by 800,000 to 900,000 tons.

47. Russian imports of meats and meat products are estimated at 400,000 to 500,000 tons (product weight) in 1977, of which about half was from Australia and New Zealand, with the remainder from East European countries. This was the third consecutive year that the Soviet Union purchased substantial quantities of meat from Western suppliers. Current expectations are that Russian imports of beef in 1978 will be about 275,000 tons compared with about 250,000 tons in 1977.

Eastern Europe

48. Throughout 1977, the East European countries also made an all-out effort to rebuild herds following the substantial reduction in inventories during 1976 because of drought and heavy slaughters. As of 1 January 1978, East European cattle numbers were expected to total 38.3 million head, an increase of 1 per cent from one year earlier.

49. Total 1977 meat production is estimated at about 10.5 million tons, a decline of 2 per cent from the 1976 level. Of this total, red meat production is estimated at 8.9 million tons, a 3 per cent decrease from 1976, with beef and veal estimated at 2.7 million tons, including fats and offals.

50. The decline in red meat production in the German Democratic Republic (GDR) and Poland offset the increases achieved in the other East European countries. Red meat production in 1978 in Eastern Europe is expected to increase since the GDR and Polish livestock industries will be recovering from their reduced 1977 production levels and gains are expected in production in the other countries.

51. With a 2 per cent decline in beef and veal production in 1977, several of the East European countries imported a total of about 70,000 tons (product weight) of beef from Australia, an increase of 55,000 tons from 1976. The largest proportion of these imports went to Poland which experienced a critical meat supply situation throughout 1977. Eastern Europe is expected to import about 60,000 tons (product weight) of beef from Australia in 1978.
Other Importing Countries

52. The Foreign Agricultural Service of the United States Department of Agriculture has recently made the following estimates and forecasts for imports of beef and veal for 1977 and 1978.

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PART II - EXPORTING COUNTRIES

Argentina

53. Cattle numbers in Argentina appear to have remained virtually unchanged in 1977 as compared with 1976. As of June 1977 the total cattle number was estimated at 60 million head, of which 24 million were cows, 13 million were calves and 23 million accounted for by other cattle.

54. The total slaughter for 1977 is estimated at 14.7 million head, an increase of 6.0 per cent from the 1976 total of 13.9 million head. The persistent drought in the southeast and west resulted in continued higher slaughter rates than had been previously expected during the last three quarters of 1977.

55. Total beef and veal production during 1977 is estimated at 2.9 million tons (carcass weight equivalent) an increase of 3.5 per cent from the 1976 total of 2.8 million tons. In 1978, total cattle slaughtering is forecast to decline to 13.2 million head resulting in beef and veal production of 2.8 million tons.

56. Steer and heifer prices remained firm during the final quarter of 1977 but there was some weakening of cow prices.

57. Domestic consumption of beef during the fourth quarter of 1977 totalled 561,000 tons (C.W.E.), marginally higher than during the corresponding period a year earlier. Total domestic consumption of beef for 1977 is estimated at 2.30 million tons, an increase of 0.6 per cent from the 1976 total of 2.28 million tons.

58. Exports of beef and veal from Argentina totalled 583,000 tons (carcass weight equivalent) in 1977, an increase of 10.6 per cent from the 1976 total of 527,000 tons. In 1977 exports represented 20.1 per cent of total production compared with 18.7 per cent in 1976. Larger exports to Spain, France, Italy, the Netherlands and Western Germany were recorded during 1977. Since 1 November 1977, Argentina is encountering increased difficulties in certain European Community markets. Since that date, Belgium, the Netherlands, Luxembourg and Italy permit only boneless meat imports. These restrictions, similar to regulations already in effect in the United Kingdom and Western Germany, were prompted by expanded concern regarding hoof and mouth disease in supplying countries. The Argentine Government is making strong protests regarding these moves by the European Community to develop a common sanitary code. There
is a general feeling among Argentine exporters that beef sales to the EC in 1978 will not be as promising as earlier anticipated and, therefore, exports will be more dependent on non-traditional markets such as the USSR and Egypt. Exports of beef to Egypt are expected to increase in 1978 as a result of a bilateral agreement signed between Argentina and Egypt at the end of 1977. Total exports of beef and veal to all markets in 1978 are expected to increase slightly from the 1977 level.

59. Under the provisions of the revised meat law published recently, the Argentinian Meat Board becomes a self-governing body whose main object is to control and promote the country's meat industry. The executive committee is to be made up of ten people; six representing the government and four from the private sector representing the meat trade. Under this new law the government has returned the production, processing and trading of meat to the private sector. The law also reduced the 2.35 per cent tax on animal slaughterings to 0.67 per cent but, in addition, the buyer will pay a tax of 0.33 per cent of the price and the breeder will have to pay a levy of up to 1 per cent of cattle sales.

Australia

60. Following one of the driest winter and spring periods on record, drought conditions had extended to every State in Australia by the beginning of January 1978. The most affected areas were Southern Australia, Southern Queensland, New South Wales and parts of Victoria and Western Australia. Although moderate rainfall during January has eased this situation slightly, the drought has led to increased slaughters of livestock and the 31 March census is expected to show that cattle numbers have declined by about 5 per cent to less than 30.0 million head, compared with 31.5 million on the same date last year. Thus, it is anticipated that Australian cattle numbers have declined by more than 10 per cent from the 33.4 million head recorded two years earlier on 31 March 1976. Further reductions in numbers are expected during 1978 and the early part of 1979 due to the current high level of breeding stock slaughters.

61. The total slaughter of cattle and calves during 1977 is estimated at 12.4 million head, an increase of 10.3 per cent from the 1976 total of 11.2 million head. Most of this increase was due to a sharp increase in the number of cows and heifers slaughtered which was up by 33.6 per cent during the first three quarters of 1977. Slaughterings of calves are expected to decline below the 1977 level in 1978. Total cattle and calf slaughterings during the year ending June 1978 have been forecast at 11.8 million head compared with 11.7 million during the same twelve-month period a year earlier.
62. During 1977, an estimated 1.96 million tons of beef and veal were produced, an increase of 4.8 per cent from the comparable 1976 total of 1.87 million tons (carcass weight). During the first quarter of 1978 production is expected to increase further, but lower production is expected during the later quarters. The total production of beef and veal in Australia in 1978 has been forecast at 1.70 million tons, a decrease of 13.3 per cent from the estimate for 1977.

63. The production potential of the Australian cattle herd has been significantly reduced during the past two years. Cow and heifer slaughter for much of this period exceeded 50 per cent of total cattle slaughter compared with a normal rate of 35 or 40 per cent. This is expected to result in a sharp decline in beef production during a four or five year period beginning in 1979.

64. Due to the high level of cattle slaughter during 1977, cattle prices continued to be depressed through most of the year. Prices began to strengthen in September and October, but were only at the same levels as a year earlier. However, in December, light steer prices at Brisbane were over 5 per cent more than a year earlier. Prices are expected to improve during the latter half of 1978 when a lower level of slaughtering is expected.

65. Domestic consumption of beef and veal in Australia is estimated at 915,000 tons (carcass weight) in 1977, an increase of 1.1 per cent from 1976. The per capita consumption remained unchanged at 65 kgs.

66. Australian exports of beef and veal during 1977 are estimated at 730,000 tons (product weight), an increase of 20.4 per cent from the 1976 total of 606,087 tons. Of this total, 151,000 tons were shipped to the USSR and Eastern Europe, compared with only 29,000 tons in 1976. Exports to the Middle East were estimated at 57,000 tons while shipments to Japan, at 70,000 tons, were slightly lower than in 1976.

67. In view of the expected reduction in production during the second half of 1978 and continued relatively high levels of domestic consumption, exports of beef and veal in 1978 are expected to decline by about 18.5 per cent to approximately 595,000 tons (product weight). The United States will continue to be Australia's largest export market for beef, taking about 45 per cent of the total. Japan, the second largest outlet, is expected to import about 75,000 tons or more than 12 per cent of the total. Eastern Europe and the Soviet Union are uncertain but very important markets for Australian beef and this will continue to be the case in 1978. Current expectations are that exports of beef to the USSR will be about 70,000 tons in 1978 compared with 85,000 tons in 1977 (product weight). Sales to Eastern Europe are expected to fall by 10,000 tons to about
60,000 tons in 1978. Exports to the Middle East are expected to rise by 10,000 tons to about 60,000 tons (product weight) in 1978. Access to the European Communities is expected to continue to be a problem. Exports to Canada in 1978 are to be limited to about 27,000 tons (product weight), virtually the same level as in 1977.

68. A recent survey carried out by the Australian Bureau of Agricultural Economics (BAE) suggests that, due to lower prices and higher input costs, resulting in lower incomes, up to 35 per cent of the beef specialist farmers in Australia may be forced out of the industry. In a recent budget, the government allocated $A 40 million to aid the livestock industry and, in particular, introduced a seven point plan to assist the beef industry over its present difficulties.

New Zealand

69. The January 1978 census is expected to show that there has been a 2 per cent decline in the cattle population since the census a year earlier when there were 9.47 million cattle on farms. This decline is due to the high levels of slaughtering of breeding stock in 1976.

70. Slaughterings of adult cattle have continued to be well below the levels of 1976. Calf slaughterings in the year ending in September 1977 were marginally less than in 1975/76.

71. New Zealand Government and industry representatives feel that a degree of stability has returned to the New Zealand cattle industry. They believe slaughter will return to a more normal level of about 33 per cent of the inventory in 1978 compared with an average of about 37 per cent during the 1975 to 1977 period. These assumptions allow for some herd rebuilding and result in an expected decline of about 10 per cent in slaughter cattle supplies during 1978. If some further herd liquidation occurs, beef and veal production in 1978 would exceed the projected level.

72. Based on the foregoing assumptions beef and veal production in New Zealand for the year ending in September 1978 is forecast at 468,000 tons (carcass weight equivalent), a decrease of 9.1 per cent from the comparable 1976/77 total of 515,000 tons and 23.7 per cent lower than the 613,000 tons produced two years earlier.

73. Fat cattle prices strengthened slightly during the first two months of the 1977/78 year, but were still below price levels of May 1977. The price of Grade M cows averaged $NZ 0.48 per kg. in December 1977, unchanged from one year earlier and Grade PI steer prices averaged $NZ 0.585 per kg., 6 per cent less than a year earlier. There is expected to be some strengthening of prices in 1978 due to lower production and an expected increase in demand.
74. Domestic consumption of beef and veal is projected at 182,000 tons in 1978, the same as the revised estimate for 1977 and 7,500 tons above the 1976 level. Beef and veal consumption fell below the anticipated level in 1977 as the lagging economy and larger supplies of poultry and pork restrained beef demand.

75. Exports of beef and veal in 1978 are projected at 320,000 tons (carcass weight equivalent) a decrease of 17.1 per cent from the 1977 estimate of 387,900 tons. Exports to traditional markets in 1978 are expected to be near 1977 levels but exports to the USSR are expected to decline. Since the USSR is an opportunistic buyer of beef, it is expected that the anticipated reduction in New Zealand supplies may deter Soviet purchases.

76. Exports to the United States, Canada and the EC are projected at 130,000 tons, 28,000 tons and 12,000 tons (product weight) respectively. Exports to the USSR are projected to decline from 40,000 tons in 1977 to 25,000 tons in 1978. Exports to Japan are expected to increase from 2,000 tons in 1977 to 4,000 tons in 1978. Exports to other minor markets are expected to remain near the 1977 levels.

Central America and Hispaniola

77. Cattle inventories in Central America and Hispaniola increased during 1977. Total numbers are estimated at 14.5 million head as of 1 January 1978, an increase of 4 per cent from one year earlier. Inventory numbers are expected to continue to increase in 1978.

78. Beef and veal production in 1978 in these countries is forecast at 409,000 tons (carcass weight equivalent), an increase of 5.4 per cent from the 1977 estimate. This production gain is due to the continuing growth in available slaughter stock which can be attributed to the build-up in inventories during the past few years.

79. Traditionally, the United States has been virtually the sole market for beef exports from Central America and Hispaniola. However, lower United States beef prices and voluntary restraints on exports to the United States during the past two years have caused certain Central American countries to develop additional markets. Some movement of beef, particularly to Venezuela and the Middle East occurred in 1977. Total beef and veal exports from this area in 1978 are forecast at 145,000 tons, an increase of 11.5 per cent from the 1977 estimate of 130,000 tons (carcass weight equivalent).
Mexico

80. On 1 January 1978, the total cattle inventory in Mexico was estimated at 28.9 million head, virtually unchanged from one year earlier.

81. Beef and veal production in 1978 is forecast to rise by 1.4 per cent to 1,055,000 tons (carcass weight equivalent) compared with 1,040,000 tons in 1977.

82. Mexican exports of beef and veal in 1977 are estimated at 29,000 tons (carcass weight equivalent), an increase of 26.1 per cent from the 1976 total of 23,000 tons. Total beef and veal exports for 1978 are forecast to increase slightly to 30,000 tons. Virtually all of Mexico's beef and veal exports go to the United States but, during 1977, small quantities were exported to other countries, principally Japan. Exports of beef to Japan during the January to August period of 1977 totalled 500 tons (product weight).

Uruguay

83. Uruguayan cattle numbers are forecast to drop by 7 per cent from 10.7 million head at the beginning of 1977 to 10.0 million head at the beginning of 1978. The cattle supply for slaughter in 1978 is expected to be more abundant than during 1977 when fattening conditions were not good because of excessive rain, low nutrient content in pastures and an unusually cold winter season. Producers were reluctant to sell mature steers because of low administered prices and expectations of future price increases, and also because ranchers' incomes had been reinforced by good wool prices. Therefore, some animals, which normally would have been slaughtered in 1977, were carried over into 1978.

84. The 1978 forecast for beef and veal production in Uruguay is 400,000 tons (carcass weight equivalent), an increase of 15.9 per cent from the latest 1977 estimate of 345,000 tons. Steers are expected to show heavier weights in 1978, assuming spring and summer pasture conditions are favourable. Thus meat availabilities are expected to support increased domestic consumption as well as increased exports.

85. Domestic consumption of beef and veal is forecast to increase to 225,000 tons (carcass weight equivalent) in 1978, 9.8 per cent more than the 1977 estimate of 205,000 tons. The Government of Uruguay decided to give priority to domestic consumption in 1977, as opposed to foreign markets.
Exports were suspended and a formula established for export frigorificos to sell one unit for domestic consumption at a low fixed price level for every two units exported. This formula means that cattlemen are providing a subsidy to domestic beef consumers.

86. Uruguayan official sources indicate that priority could be given once again to exports of beef in 1978. The 1978 beef export forecast is 175,000 tons (carcass weight equivalent), an increase of 25 per cent from the estimate of 140,000 tons for 1977. As in 1977, Brazil is a promising export market for Uruguayan beef in 1978. However, like Argentina, Uruguay will lose some of its export markets since it too will be affected by the new EC regulations. New export markets for bone-in meats will be necessary for Uruguay and other South American countries if exports are to reach the 1978 forecast.
PART III - GENERAL

International Economic Situation

87. Economic growth in the major industrialized countries continues to be slow. The latest forecast for the OECD area for 1978 is well below the target growth rate of 5 per cent previously set for 1978. The real Gross National Product (GNP) is now expected to be only 3.5 per cent higher than in 1977.

88. In the United States, the real increase in GNP in 1977 was slightly less than 5 per cent and a further increase of 4 to 6 per cent is forecast for 1978. The unemployment rate is expected to fall to 6.5 per cent by June 1978, but there could again be some seasonal increase during the second half of the year.

89. Japan's GNP in 1977 was estimated to be 6 per cent higher than in 1976. In 1978, an increase of 5 per cent is forecast by the OECD, but it is expected that there will be a slowing down in the rate of growth in the second half of the year. The Japanese Government, however, has announced a target growth rate of 7 per cent for the 1978 fiscal year covering the twelve months ending March 1979.

90. The EC Commission has recently issued its 1978 annual report on the economic situation in the Community. This report stresses the desirability of an economic growth rate of 4 to 4.5 per cent and the reduction of unemployment. However, the Commission is currently expecting an increase in real Gross Domestic Product (GDP) of only 3.5 per cent and the OECD forecast for the Community is an even lower increase of 2.8 per cent.

91. There is expected to be a further reduction in inflation rates in the OECD area, with consumer prices in 1978 forecast to rise an average of 7 per cent compared with 1977. According to the OECD, the rate of price increase in 1978 could be lower or unchanged compared with a year earlier in all of the major industrialized countries except for a slight acceleration in Western Germany.

92. In the United States, consumer price increases are forecast to remain at just under 6 per cent. In Japan further progress is likely to result in inflation falling from 7.3 per cent in 1977 to 6 per cent in 1978. In the European Community, the Commission is hoping for a reduction in the average rate of increase in consumer prices to 7 or 8 per cent and to narrow the range in inflation rates between the various member countries.
International Cattle Situation

93. World cattle numbers are continuing to decline. However, the overall rate of decline is relatively slow and numbers still remain substantially higher than at the beginning of 1970. Moreover, there is evidence that breeding herd expansion could start again in some important producing countries in 1978.

94. In the United States, total cattle numbers at the beginning of 1978 were 5 per cent less than a year earlier and there was also a significant decrease in the size of the breeding herd. However, if feeder cattle and calf prices continue to rise there could again be an expansion of the breeding herd this year. The same trends are likely to occur in Canada. The important factor behind these North American developments has been the improved profitability of feedlots, due mainly to lower feed grain prices. In Argentina, cattle numbers remained virtually unchanged in 1977, compared with one year earlier, while Uruguay recorded a decline of 7 per cent at the beginning of 1978 compared with one year earlier.

95. In Australia, total cattle numbers in March 1978 were expected to be below 30 million for the first time since 1973. In view of the continued low profitability of beef production in Australia, a further contraction of the cattle herd seems likely during the remainder of 1978. In New Zealand, cattle numbers in January 1978 were estimated to be about 2 per cent lower than a year earlier, but only a very small decline is expected during 1978. The latest estimate of cattle numbers in the USSR as of 1 January 1978 indicates an increase of 2 per cent compared with a year earlier, and small increases in cattle numbers have occurred in parts of Eastern Europe.

96. In the European Community, the December 1977 census showed that total cattle numbers in the nine EC countries were about 1 per cent higher than a year earlier with relatively little change in the number of breeding cows. Despite the various measures taken to prevent further surpluses in milk production and the fact that the EC reference price is unlikely to rise much above 95 per cent of the proposed guide price during the year, it seems probable that there will be a small expansion of the EC breeding herd during 1978.

97. World beef and veal production in 1977 is estimated to have been about 1 per cent less than in 1976, the first decline recorded since 1973. Recent forecasts made by the USDA Foreign Agricultural Service indicate that beef and veal production in major importing and exporting countries in 1978 can be expected to decline by a further 2.4 per cent.
98. In the United States, beef and veal production fell by 3 per cent in 1977 and a further decline of about 3 per cent is forecast for 1978, although this is most likely to be concentrated in the second half of the year. Moreover, cow beef production is expected to show a sharper decline if the United States breeding herd expands. Production in Argentina increased by about 4 per cent in 1977 compared with 1976 but a slight reduction is forecast for 1978. In both Australia and New Zealand production is forecast to decline appreciably in 1978. In the USSR and Eastern Europe small increases in production levels are likely in 1978. Total beef and veal production in the European Community, which declined by almost 3 per cent between 1976 and 1977, is forecast to remain at about the same level in 1978. In overall terms, world beef production is likely to decline again in 1978, probably by at least 1 per cent.

99. With economic growth in 1978 for the major industrialized countries unlikely, on average, to be any higher than in 1977, increases in disposable incomes are likely to result in only a marginal increase in the effective demand for beef and veal in 1978. In addition, greatly expanded supplies of pigmeat in 1978 are expected to have an adverse effect on the demand for beef. Therefore, world beef prices are unlikely to show any substantial increase during 1978.

100. The EC reference price has remained below the intervention price throughout the first two months of 1978. The EC Commission has proposed that the guide price for the 1978/79 marketing year should be raised by only 1.25 per cent but, changes in actual support price levels in individual member States are also affected by the proposed changes in the rates for the green currencies.

101. World trade in beef and veal has recovered in recent years from the low levels of 2.1 million tons (carcass weight equivalent) in 1974 and 2.4 million tons in 1975, which were primarily due to limitations of market access in the EC and Japan. Some liberalization of trade to those areas occurred in 1976 and, in addition, a number of Mid-East countries became more active in the international meat market. As a result, world imports rose to 2.9 million tons in 1976 and current estimates indicate that 1977 world beef and veal imports were at a similar level, with minor changes for individual markets. Forecasts for 1978 beef and veal trade indicate a continuation at this relatively high level of 2.9 million tons.

102. Imports of beef and veal into the United States in 1977 are estimated to have been about 2.4 per cent lower than in 1976. The "trigger level" in 1978 under the Meat Import Law has been set at 591,000 tons (product weight).
There have been further increases in the Japanese beef import quota for the 1977/78 fiscal year, resulting in a quota of 95,000 tons (product weight) for the twelve months ending in March 1978. In the EC, continued high variable levies and the current "jumelage" scheme are expected to restrict beef imports to levels near those of the previous two years, i.e. about 475,000 tons (C.W.E.). Canadian total beef and veal imports are expected to remain unchanged in 1978 at about 97,000 tons (C.W.E.).

103. An unexpected feature of the European Community beef situation in 1977 was the increasing amount of beef held in public intervention stocks relative to the quantities held by traders under the private storage aid schemes. Although EC purchases for intervention in 1977, at 260,000 tons, were the lowest annual total since the scheme's inauguration in 1973, total intervention stocks at the end of 1977 were estimated at 362,000 tons (product weight), about 100,000 tons higher than at the end of 1976. By contrast, the amount held early in 1978 under the EC private storage aid schemes was thought to be about 80,000 tons less than the quantity held one year earlier.