Since the last meeting of the Group there has been a significant improvement in the international meat situation. International beef prices have already risen strongly during 1978 and with the prospects of further tightening of the international beef situation, prices should continue to strengthen.

As a result, there are now some encouraging signs of recovery in the Australian beef industry from the depression which has prevailed for the past four years. In particular, Australian cattle prices have increased substantially in the last two months and in 1978/79 are forecast to increase by some 30 per cent above the level of the previous year.

The main factors likely to affect the outlook for beef and veal in Australia in 1979 are seasonal conditions, the size of the herd and the level of demand on domestic and overseas markets. The continued increase in exports at higher prices to the United States and the lower Australian production will be the most important factors affecting the short-term outlook in Australia.

A marked improvement in seasonal conditions, especially in Southern Australia at present is resulting in a reduction in the rate of cattle slaughter and increased activity in the cattle store market. Total slaughterings of cattle in 1978-79 are forecast to decline by 16 per cent to around 10.6 million head. However, higher average carcass weights stemming from improved seasonal conditions and a reduction in the proportion of female cattle being slaughtered is expected to result in a relatively smaller decline of about 12 per cent in beef and veal production to 1.87 million tonnes.

However, since slaughterings as a percentage of herd size are forecast to remain well above the average of 31 per cent recorded for the past two decades, it appears that herd numbers may decline further from the 29.3 million estimated for March 1978. The herd is forecast to be around 28 million by next March, but numbers are likely to then slowly recover if seasonal and economic conditions remain favourable.
Domestic consumption of beef and veal is expected to decline as retail prices rise in response to increased saleyard prices. Consumption per person is forecast to fall from an estimated 64.4 kgs. in 1977-78 to 58 kgs. this year. This implies a 9 per cent reduction in total consumption to around 835,000 metric tonnes.

Although shipments of beef and veal to the United States market are expected to increase in 1978-79 the reduced production is forecast to result in an overall 7 per cent reduction in exports to around 700,000 tonnes (shipped weight). Shipments to some other markets are therefore expected to decline as market forces direct additional supplies of beef towards those countries offering the highest returns to exporters.

I would now like to review some of the trends that appear to be developing in some of the major markets for beef and veal, in particular the United States, Canada, the EEC and Japan. The passage by the United States Congress of revised meat import arrangements has introduced considerable uncertainty. However, it is not clear whether the legislation will become law and in this forum and at this time I will say nothing more on this matter.

The liquidation phase in the United States cattle herd appears to be continuing, with the United States cattle population on 1 July 1978 estimated to be 121.6 million head, 13 per cent fewer than the peak of 140 million head reached on 1 July 1975. Higher levels of summer placements of cattle on feed are expected to continue in the coming months due to the continued availability of relatively cheap grain supplies. Fed cattle slaughter in 1978 is expected to be around 69 per cent of total commercial slaughter up from about 52 per cent in 1975. However, the increase in slaughter of fed cattle will be offset by sharp reductions in non-fed slaughter and consequently beef production in 1978 is expected to be 3-5 per cent below year earlier levels.

The reduced supplies of beef have resulted in strengthened prices for all classes of cattle, particularly in the non-fed sector. For example, over the last six months, prices for cutter cows at Omaha have risen some 21 per cent to a record level of $39.45 per cwt.

The lower supplies of red meat have produced significant increase in United States retail beef prices. As cow slaughter continues its decline into 1979, the price differential between choice steer and cow beef should continue to narrow, causing a higher rate of increase in retail ground meat than choice cut prices. We would welcome comment on this point.

It now appears that 1979 could be the low point of the cattle inventory. Cattle and calf prices have improved substantially this year and after calves are sold at higher prices in the coming winter, United States cattle men will probably begin to hold heifers to rebuild the herd. Again we would welcome comment on this point.
In Canada, the inventory of cattle and calves totalled 13.7 million head on 1 July 1978, a decline of 7 per cent on a year earlier. In line with the general trend in other countries, it is estimated that the number of cattle slaughtered commercially in Canada in 1978 will be down by about 7 per cent and beef and veal production down about 8 per cent. Sharp decreases of beef in cold storage and of beef imports have reduced beef availability more than the decrease in production.

Canadian markets analysts interpret the decline in cattle slaughter as an indication that the Canadian cattle cycle is completing its liquidation phase and entering the rebuilding phase. However, we note that cow and heifer slaughter has declined less significantly than steer slaughter and thus the potential breeding herd is still being reduced. In this situation it must be expected that beef and veal production in Canada will be reduced for the next few years.

We would be particularly interested in the comments of the Canadian delegation on how they see the outlook and would welcome any comments on how such an outlook fits with apparent decisions not to increase beef imports in 1978 and to continue import controls over the next few years.

In Japan, total beef production for the six months ending June 1978 increased by some 12 per cent on the corresponding period last year to reach a record level of 128,000 tonnes (product weight), including an increase in dairy steer production of 14 per cent to 38,000 tonnes (product weight). With the continued high rates of slaughter in the Japanese herd over the past few years we expect that production in Japan will soon decrease to allow a period of herd rebuilding. We would welcome any comments from the Japanese delegation on this aspect.

Although consumer demand continues to be constrained by high prices, consumption is expected to rise 7 per cent to 9.5 kgs. in 1978. Again we would welcome comment as to whether this trend is expected to continue.

We were pleased at the recent announcement that Japan will import 50,000 tonnes of beef under the general quota between January and June 1979. This represents an increase of 5,000 tonnes on the quota for the same period of last year and is the largest quota announcement since the re-opening of the Japanese market in 1975. Japan will import additional quantities of beef during this period under special purpose quotas (beef for the school lunch programme, hotels, boiled beef and for Okinawa). While details of these quotas have not yet been announced, our hope is that they should approach 10,000 tonnes, taking total access in the first half of next year to nearly 60,000 tonnes.
In the EEC, production and consumption of beef and veal are forecast to remain fairly stable over the next year. This suggests that intervention stocks could remain at relatively high levels as beef prices continue at or below 90 per cent of the guide price. It therefore appears that imports under the current beef import régime will remain subject to the payment of the maximum levy of 11½ per cent of the difference between the guide price and the duty paid import price. The 2.5 per cent increase in the guide price, adjustments in the green currency rates and a 12 per cent rise in the basic levy seem to confirm this and thus rule out the possibility of any substantial increase in imports under the current import régime in 1978-79. Imports are therefore unlikely to be much greater than those covered by special arrangements such as GATT, ACP and Balance Sheet quotas. Consequently, it appears that Australia's shipments of beef and veal are unlikely to be significantly different from their recent low levels. Again we would welcome comments.

Over the past few months, we have seen some signs that the heavy oversupply situation which has characterized the world beef market since 1974 is beginning to ease. Projected cattle inventories in most major producing countries are already reduced to 1972 levels and, with increased demand, there is every reason to believe that there will be a continued tightening of world beef supplies and higher prices for the next two or three years.