GENERAL AGREEMENT ON
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INTERNATIONAL MEAT CONSULTATIVE GROUP

Tenth Meeting - 27 April 1978

Statement Made by the Representative of Australia

At the last meeting of the Group, we commented that it appeared likely we would have to wait until mid-1978 for a moderate strengthening of Australian cattle prices. It now appears that the Australian industry will move deeper into recession and that we will have to wait until sometime late in 1978 or early in 1979 for a moderate strengthening of Australian cattle prices.

The main factors likely to affect the outlook for beef and veal in Australia in 1978 are seasonal conditions, the size of the herd, the tight liquidity situation facing producers and the level of demand for beef on the domestic and overseas markets. In the absence of improved access into the EEC, the continued improvement in the United States market and the level of imports by the USSR and Eastern European countries will be the most critical factors affecting the Australian market.

The adverse seasonal conditions persisting in parts of southern Australia and the continuing liquidity pressures on producers are likely to force further reductions in the national herd over the next twelve months. Although there should be some overall easing in the rate of liquidation, slaughterings should continue to reflect this position and remain at historically high levels. As a result the size of the Australian cattle herd in March 1978 was estimated to be reduced by 6.5 per cent in 1977 to 29.5 million head. A further reduction could follow in 1979.

Exports to the United States are currently running at a relatively high level. Should this continue, the Australian allocation under the voluntary restraint programme will be filled well before the end of the year. If this eventuates, sale yard prices in Australia could fall in the latter half of the year as exporters curtail purchases of cattle. Significant sales to other alternative overseas markets could relieve the pressure of this situation. Continuation of the general improvement in seasonal conditions could however alter this somewhat pessimistic outlook and encourage producers to withhold stock to increase herd size and result in lower slaughtering of female stock and calves. This factor combined with the smaller Australian herd could lead to a decline in the production of beef and veal in Australia in 1978. It is expected however to remain at an historically high level.

As a result of the high production and the reduced level of access to overseas markets, domestic consumption in Australia is expected to remain high throughout 1978 at approximately 65 kgs. per capita. Total consumption could therefore account for some 920,000 tons (carcass weight), a reduction of about 1.7 per cent on 1977.

In general, it appears that developments in the United States market and the volume of imports by the USSR and Eastern Europe are likely to be the key factors determining the level of export demand for Australian beef during the next twelve months. In view of the expected reduction in output and continued relatively high levels of domestic consumption total Australian exports could be reduced below the 1977 record. However, if there are substantial strengthening of overseas demand and significantly higher prices in world trade, exports could rise well above this figure as additional beef is diverted from domestic consumption.

I would like now 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 liquidation phase in the United States cattle herd appears to be continuing, with the United States cattle population in 1 January 1978 estimated to be 116.3 million head, down 12 per cent from the peak of 133 million head on 1 January 1975. Lower inventory levels are forecast to keep production of beef and veal down to 10.8 million tons, a decline of 4 per cent from the 1977 level. However, the continuation of relatively cheap grain supplies should produce a bigger proportion of fed cattle in the slaughter mix and this should help to increase average slaughter weights. With the demand for feeder cattle likely to be strong during the first half of 1978 it is expected that prices for feeders will have increased enough to encourage producers to retain breeding stock and thus to halt the liquidation of the cow herd. In this respect we are uncertain of the effect which the passage of the Farm Bill will have on grain prices and movement of cattle into feed lots and would welcome any comments.

The reduced supplies of beef in 1978 are expected to result in strengthened prices for all classes of cattle, particularly in the non-fed sector, as the year progresses. However, significant higher supplies of pig and poultry meat may provide some dampening effect on beef price rises. At present the price consumption ratio for beef in the United States is somewhat puzzling in that prices have risen further than the level of consumption would seem to indicate. We would welcome any comments on this point.

United States exports of beef are also expected to continue high this year as United States supplies of fed beef will be plentiful and overseas demand for quality beef cuts continues strong.

In Canada, smaller numbers of calves in 1976 and 1977 suggest that Canada's potential output of beef and veal over the next few years will be significantly below the 1976-77 level. As a result, Agriculture Canada has estimated that total cattle slaughter in 1978 could be down about 4-6 per cent. Also it is expected that a proportionately larger percentage of animals slaughtered will be fed rather than non-fed. Consequently, average carcass weight will likely rise and beef production will probably fall less than cattle slaughter. These factors indicate a probable shortfall in the production of manufacturing grade beef and a continuing demand for imports.

We will be particularly interested in the comments of the Canadian delegation on how they see the outlook and would welcome any comments they could make on how such an outlook fits with Canada's recent decision to continue import controls over the next three years.

In Japan, production of beef and veal last year increased by some 20 per cent on 1976 levels to reach a record 356,000 tons. Much of this increase occurred in output of dairy steer beef where production was some 40 per cent higher than in 1976. With these high rates of slaughter, we would have expected to see evidence of some liquidation in the beef herd during 1977 but reports we have seen suggest that the herd size may in fact have increased by around 2 per cent during the year. We would welcome the comments of the Japanese delegation on this aspect. Although consumer demand for beef and veal in Japan continues to be constrained by very high retail prices, consumption last year rose to around 475,000 tons. During 1978, these high domestic prices are likely to continue to place limits on further increases.

We would expect the next beef import quota, covering imports in July-December 1978, to be announced this month. Japan has already announced that the general quota would be for a minimum of 40,000 tons and we anticipate that this will rise to 45,000 tons in the following quota period. We believe that Japanese efforts to stimulate demand by streamlining the presently cumbersome distribution system and by lowering retail prices could readily justify an increase in excess of these levels.

Production of beef and veal in the EEC is forecast to decline slightly to 6.1 million tons in 1978. Cattle numbers are likely to increase marginally as producers respond to the higher level of beef prices prevailing in the Community over the past year. However, static consumption in the EEC, a result of extremely high retail prices combined with a high level of beef production, has led to a substantial build up of intervention stocks. This in turn has acted to keep domestic prices in the Community at levels below the Community Guide prices and imported beef has continued to be excluded from the EEC by the imposition of prohibitive import levies. These levies range up to $A 2,800 a ton for frozen boneless beef and compare with total import charges in both the United States and Canadian markets of less than $A 60 a ton. Additional barriers in the form of veterinary regulations are expected to interfere with trade as the third country veterinary directive comes into force. In light of these factors, access for third country suppliers such as Australia is likely to continue to be restricted to the global quotas which operate outside the normal levy system (the GATT Levy Free Quota and Balance Sheet Quotas).

We would be interested to hear the Community's comments on their likely import requirements in 1978, particularly for frozen beef. Continued high levels of cattle slaughtering in Australia and the lack of alternative high-volume markets are expected to be the main reasons for a further delay in the improvement of Australian sale yard prices for cattle, in 1978. While prices in North America should continue to improve, at present there seems little prospect of significantly greater access to these markets and those in Japan and the EEC. Significant sales to other markets, such as the USSR and Eastern European countries are needed to absorb the expected exportable surplus from Australia in 1978.