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SITUATION AND OUTLOOK IN THE INTERNATIONAL MEAT MARKETS

Note by the Secretariat

The present note has been drawn up by the secretariat of the Arrangement in accordance with the terms of Article IV, paragraph 1(a), of the Arrangement. The note presents a summary of the international situation and outlook for bovine meat and specific elements of the world beef economy on a country-by-country basis. (Summaries of the situation and outlook for pigmeat, poultry meat and sheepmeat will be published as an addendum.) In the preparation of this document, the following sources, inter alia, have been used: several 1988 USDA reports; In Brief, Australian Meat and Livestock Corporation, various issues for 1988; European Weekly Market Survey, Meat and Livestock Commission, various issues for 1988; Weekly Information Bulletin, Junta Nacional de Carnes, various issues for 1988; Informe Ganadero, Buenos Aires, 1988, various issues; Medium-Term Outlook, Agriculture Canada - July 1988; Marché International du Bétail et des Viandes, CFCE, various issues for 1988; The New Zealand Meat Producer, several issues for 1988; OECD, Situation and Outlook for the Meat Markets, October 1988; and responses to the questionnaire submitted by 17 November 1988.

On a trial basis, summaries of significant trade policy developments in the bovine meat sector (or which may have a close impact on the sector) in individual countries, have been included in this note. Their coverage may not be exhaustive and sources used varied widely from country notifications to the GATT, to press reports.

NB: The countries whose names are followed by an asterisk* are those for which the secretariat had no new data. For these countries, the text of the last situation and outlook report (IMC/W/65) has been reproduced.

CONTENTS

	<u>Page</u>
<u>KEY ISSUES - 1988-1989</u>	3
I. <u>MAJOR FEATURES OF THE INTERNATIONAL ECONOMIC SITUATION AND OUTLOOK</u>	6
II. <u>THE INTERNATIONAL SITUATION AND OUTLOOK IN THE BOVINE MEAT SECTOR</u>	7
III. <u>COUNTRY-BY-COUNTRY ANALYSIS</u>	13
<u>(West Europe):</u>	
European Community	13
Finland	15
Sweden	16
Switzerland*	18
Austria	19
<u>(East Europe):</u>	
Bulgaria	20
Hungary*	21
Poland	22
Yugoslavia*	23
<u>(Africa):</u>	
South Africa	24
Tunisia*	26
<u>(South America):</u>	
Argentina	27
Brazil	28
Colombia*	30
Uruguay	31
<u>(North America):</u>	
United States	32
Canada	35
<u>(Oceania and Asia):</u>	
Australia	36
New Zealand	38
Japan	40

- KEY ISSUES - KEY -
1988

1. Economic growth strengthened in both industrial and developing countries, but ...
2. The fluctuations of the United States dollar continued to play a major role in bovine meat trade.
3. Beef and veal supplies diminished (total estimated production of participating countries fell by 1.5 per cent, to 30.8 million tons)
...
4. And import demand strengthened (total estimated exports by participating countries rose by 4 per cent, to 3.7 million tons).
5. International bovine meat prices remained relatively high for the second consecutive year (albeit somewhat lower than in 1987), but ...
6. Forage and feed costs increased due to the North American drought (and as a result production costs also went up).
7. European Community stock levels are down and while ...
8. Brazil is back in the bovine meat export scene,
9. The Republic of Korea is back in the import scene and Iran and Irak seem to be back as well.
10. Japan decided to gradually liberalize beef imports, but ...
11. The United States imposed "VRA" on both Australia and New Zealand for the second consecutive year.

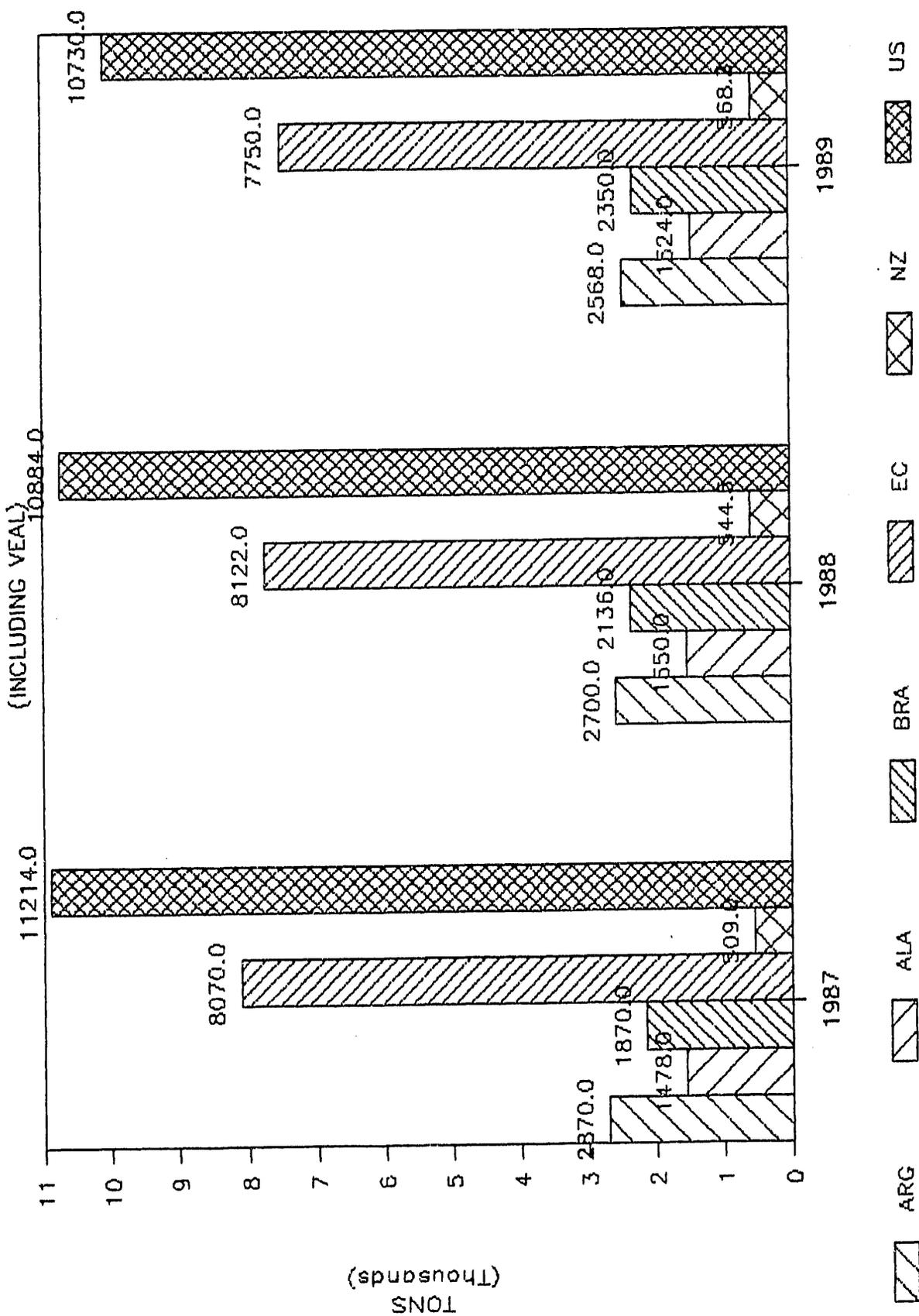
1989

1. Economic growth is expected to slow down in industrial countries, but should continue to strengthen in developing countries.
2. Herd rebuilding is going on in an increasing number of countries, so ...
3. Beef and veal supplies will decline further ...
4. Import demand will be stronger ...
5. Bovine meat prices in international markets should strengthen, but ...
6. Production costs may increase further due to more expensive forage and feed costs. However ...
7. Competing meats' prices should also go up, favouring beef and veal consumption.
8. EC stock levels should reach the lowest level of the decade, and furthermore ...
9. EC self-sufficiency ratio could fall below 100.
10. Japan will buy more beef ...
11. And the end of the Iran-Irak war could result, oil prices allowing, in higher imports.

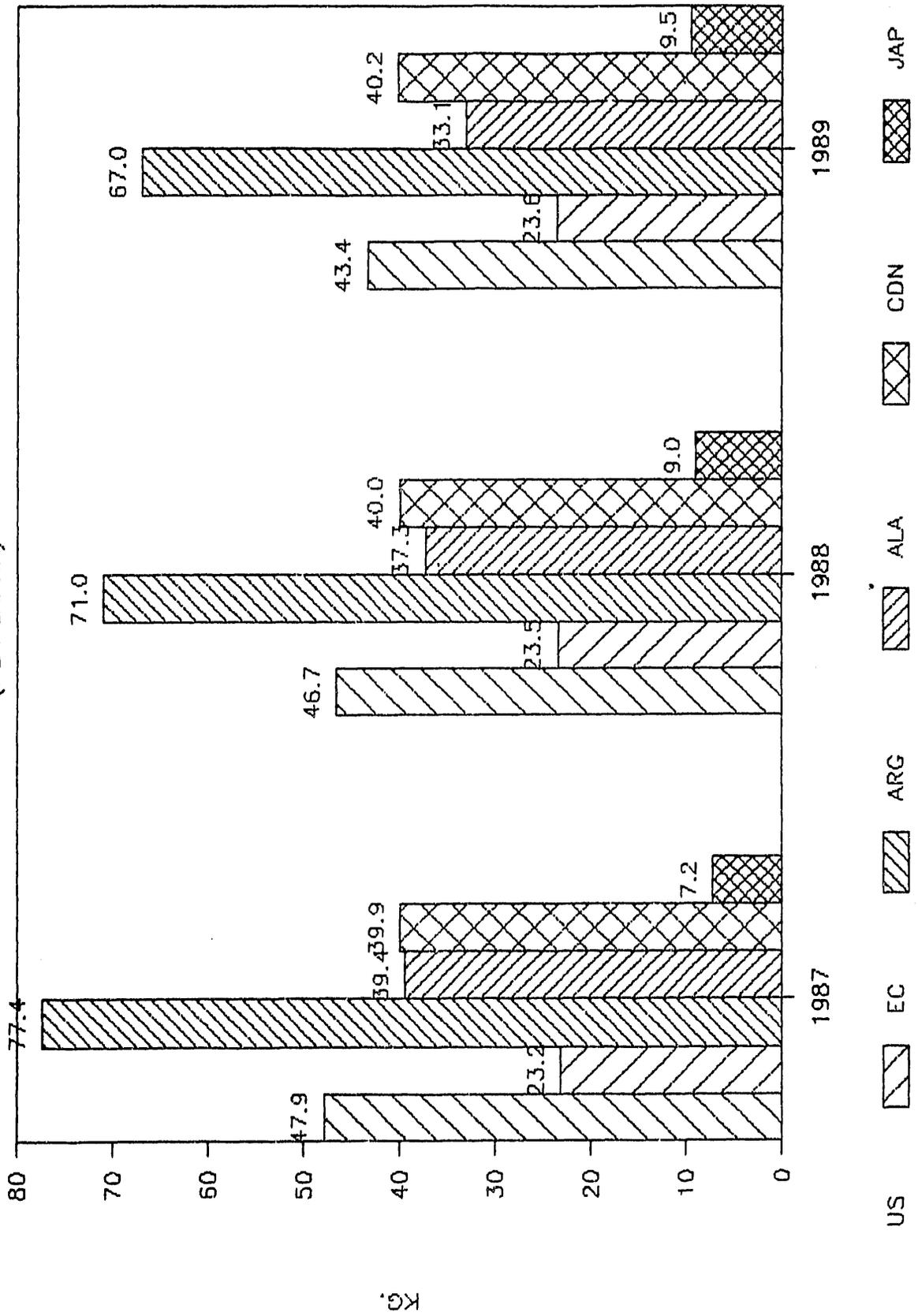
In Conclusion

Conditions seem to be set for better times in the bovine meat sector.

SELECTED COUNTRIES' BEEF PRODUCTION



SELECTED COUNTRIES' BEEF CONSUMPTION (PER CAPITA)



I. MAJOR FEATURES OF THE ECONOMIC SITUATION AND OUTLOOK

1. Figures for economic growth in 1988 in the industrial countries have been revised upward, and are expected to reach 3.9 per cent*, a higher rate than in 1987 (3.3 per cent). That rate, which was not estimated to be so high earlier this year (old figures indicated a rise of only 2.8 per cent in economic growth for the current year), shows that these countries are now learning how to manage a "crisis situation", which needs more policy co-ordination among different countries. Higher domestic demand in the major surplus countries - mostly in Japan and in the Federal Republic of Germany - and, in the United States, lower private consumption and the reduction of the fiscal deficit to some 2 per cent of the gross national product (GNP), are the major reasons for this revision. Provisions for growth in the industrial countries in 1989 show a decrease and are now estimated at 2.8 per cent. In the developing countries, economic growth is expected to reach 3.6 per cent in 1988, a small recovery after the slowdown from 4.2 per cent in 1986 to 3.4 per cent in 1987. This recovery is marked by a divergence in the growth performance among them: around 8 per cent in the newly industrialized countries (NIC) of Asia, around 2.6 per cent in Africa and only some 0.9 per cent in the Middle East. In fact, this high activity in the industrial countries has improved the terms of trade for developing countries exporting metals, manufactured goods and agricultural raw materials, and has deteriorated them for countries exporting oil and tropical beverages. In 1989, the GNP of developing countries is expected to grow by some 4 per cent and all the different groups of countries will be able to benefit from this situation. Inflation rates in industrial countries should reach some 3 per cent in 1988 and are expected to increase marginally in 1989. In developing countries, inflation will continue to rise in 1988, probably by some 20 percentage points more than in 1987, reaching 60 per cent, due mainly to very high inflation in a small number of countries in Latin America. Unemployment in 1988 is expected to run at the same rate as in 1987 (8 per cent). As regards trade, according to GATT experts**, revised figures for 1987 indicate an increase of 5 per cent in the volume of world trade in merchandise, a much higher figure than those of the last two years (3 per cent in 1985 and 3.5 per cent in 1986). The increased international competitiveness of United States products combined with a less rapid growth of its imports (compared to their level between 1983 and 1986) allow experts to expect higher net exports of goods and services by the United States, thus providing an impetus to its economic activity in 1988. The Asian NICs are likely to face a weakening of their current account in 1988 and 1989, as a result of their decision to limit their current account surpluses by importing more and allowing their currency to appreciate. In 1988, the volume of world trade in merchandise is expected to reach the same level as in 1987, that is, 5 per cent.

* IMF World Economic Outlook, October 1988

** GATT International Trade, 1987/88, Sections 1 and 2

II. THE INTERNATIONAL SITUATION AND OUTLOOK IN THE BOVINE MEAT SECTOR

Situation and Outlook

2. The bovine meat market situation in 1988 has been characterized by lower beef and veal supplies, strengthened import demand, low export availabilities, generally higher production costs due to increased forage and feed costs, and somewhat lower but still profitable prices. Prospects for 1989 are for the continuation of improved market conditions, supported by strengthening prices.

Cattle herds and production

3. After years of declining cattle numbers provoked both by depressed prices and, in a number of countries, by programmes to control milk production, herd rebuilding is now under way or should occur over the next one or two years. In North America, in spite of the parallel which can be drawn between the cattle industries of the United States and Canada, it can be observed that, while stimulated by strongly increased cattle prices, Canadian producers seem to have decided to rebuild their herds, whereas in the United States, where the price situation has also been noticeably improving for more than two years, producers preferred to pay off debts and improve their financial base. However, even if United States cattle numbers are not expected to show any expansion before 1991, cow slaughter has fallen markedly in the current year and heifer retention was up, announcing the proximity of herd rebuilding. But drought-reduced forage supplies and higher feed costs may well delay the expansion in the United States and slow it down in Canada. Reduced cattle herd, lower cow slaughter and increased heifer retention resulted in a decrease in beef and veal production in the United States (which was nevertheless partly offset by a higher proportion of heavier fed cattle in the slaughter mix and the effects of the drought), while in Canada higher cattle numbers, increased weights and drought-induced increased slaughtering resulted in a marginal production drop. With good price prospects in both countries for 1989, basically as a result of lower feeder cattle prices, herd retention is expected to increase and beef and veal production should fall.

4. In South America, a number of major exporting countries have been faced with depleted cattle herds and rising import demand in major markets. This is the case in Argentina, where estimated cattle and calf numbers, at their lowest level since the beginning of the 1970's, fell again this year and should show a further drop in 1989. However, lower slaughter levels this year suggest that cattle herd liquidation is approaching its conclusion. This, as in North America, may have been somewhat delayed by drought conditions in the country for several months this year. In line with declining slaughter levels, beef and veal output is estimated to fall in 1988 and through 1989. In Uruguay, where cattle numbers are well below those of the beginning of the decade, herd rebuilding has been under way for two years, but continuing strong export and domestic demand has resulted in higher slaughter levels this year. As a result, cattle herd rebuilding was interrupted (projected 1989 cattle numbers are down) and beef and veal production went up sharply in 1988 and should rise further next year. Brazil seems to be slowly recovering from the very difficult

situation of the last two years with both cattle numbers and production expected to increase this year. However, in 1989 production should fall due to strong female cattle slaughter during those two years and lower investments in the sector.

5. In Oceania, the situation between Australia and New Zealand is somewhat different. Reflecting the Australian producers' desire to maximize incomes by taking advantage of strong import demand and consequent price increases, herd rebuilding in Australia was interrupted in 1987/88. However, in spite of recent price drops reflecting the rise in the Australian dollar's value against the United States dollar, good prospects for 1989 (and after) due to the continuing strong import demand in North America and the gradual opening of the Japanese and Korean markets, seem to have restored producers' confidence. Slaughter levels are down, cattle numbers are rising again and beef and veal production should decline both this year and the next. In New Zealand, the meat sector is still recovering from the withdrawal of price support and the meat workers' strike of 1986/87. Growth in the beef sector has also been hampered by a relatively high New Zealand dollar until recently. Improved prices and prospects are by and large the same as those favouring the Australian industry, except that the effects of the liberalization of access to Asian markets are likely to be largely indirect. Cattle slaughter in 1988 is expected to be slightly up and production should rise significantly because of much heavier carcass weights. Next year a small rise could occur in cattle numbers, slaughter levels should show some decline, and production will fall in line with this trend, but also due to a reduction in carcass weights.

6. As is widely known, the bovine meat sector in the European Community has been highly susceptible over the last few years to policy measures undertaken to reduce milk output. As a result, dairy cow numbers have fallen markedly and total numbers are down for the third consecutive year. This reduction of the herd, coupled with lower slaughter levels reflecting producers' improving prices, resulted in lower beef and veal supplies. With a beef stock situation finally appearing to be improving (by the end of September 1988 stock levels (still at a level of some 623,000 tons) were for the first time this year below year earlier levels), producer prices are expected to firm further in 1989, thus supporting lower slaughter levels and production. In most other European countries both cattle numbers and beef production are falling and reportedly, this is also the case in the USSR. In Japan, where production rose at the beginning of 1988 reflecting low feed costs and a strong yen, a level-off seems to have occurred in the second half of the year in line with declining slaughter. However, a surge in production could again occur in 1989.

Consumption

7. Beef and veal consumption trends in 1988 do not seem to have changed much from last year. Estimated consumption in countries participating in the Arrangement was down by around 1 per cent. However, consumption data being, in most cases, residual figures, this evolution should be looked at with caution. Also, generally speaking, a new factor has intervened since roughly mid-1988, which may favour bovine meat consumption in a significant number of countries, this being higher feedgrain prices. It can be

expected, and this can already be observed in some countries, that the prices of more "grain dependent" types of meat such as pigmeat, and especially poultry meat, will increase proportionally more than beef and veal prices. This may well result in improved demand for the latter this year and even more so in 1989, when the impact of higher feedgrain prices will be greater.

8. In North America, plentiful supplies of other meats and, in spite of this, relatively high beef retail prices resulted this year in the United States (where the production fall supported the high beef prices) in declining per capita consumption, which is forecast to fall even further in 1989. In Canada, although the supply and price scenario is similar to the one in the United States, strongly increased consumers' disposable income (and possibly the above-mentioned rise in competing meats' prices) resulted in increased consumption in 1988. In 1989, another rise could occur.

9. In South America, beef and veal intake is expected to fall this year in both Argentina and Brazil, in the former as a result of the combination of the production fall and of strongly decreased consumers' income and again escalating inflation, these last two reasons also explaining the consumption fall in Brazil. In Uruguay, lower beef retail prices seem to explain the surge in consumption this year, which is expected to continue through 1989.

10. In Oceania, the decline in the Australian beef and veal output and resulting lower export availabilities, coupled with strong import demand, resulted in higher beef retail prices. These, along with lower prices of competing meats, translated into declining beef consumption which should fall even more next year. In New Zealand, the decline in beef intake is related to taste preferences and lower sheepmeat prices which are currently some 25 per cent below those for beef.

11. Undoubtedly one of the major exceptions to the generally declining consumption trends this year and the next (at least) is the European Community. Here, the recovery in the consumption of beef and veal seems to be due to a combination of generally improved economic conditions and the rising prices of competing meats, provoked by higher feedgrain prices. Should, as expected, production continue to decrease and consumption to rise, the EC self-sufficiency ratio could well fall, for the first time in years, below 100 in 1989. With the exception of Finland, Switzerland and Hungary, where it should rise, beef and veal intake is expected to drop this year in the other European countries.

12. Meanwhile, Japanese consumption of bovine meat has shown a 6 per cent rise during the first half of the current year, in spite of persistent high retail prices for beef. Last February's LIPC projections for the year as a whole were for a 4 per cent rise, and for a continuing rising trend over the next few years. Recent decisions by the Japanese authorities to gradually open their market should provoke significant price drops and consumption might increase faster than predicted by the LIPC.

Trade and prices

13. Currently available data suggest that international trade in bovine meat may have risen by 3-4 per cent in volume in 1988 (Table I). This increase is, by and large, due to the return of Brazil to the export scene (Brazilian exports almost doubled compared to 1987) and to strongly increased Uruguayan sales. Strong import demand in major areas such as North America and Asia, and signs of recovering demand in the Middle East and North Africa appear to be the reasons for higher volumes of trade.

14. In North America, imports rose in the United States as a consequence of the production drop,¹ the rise in the Meat Import Law "trigger level" and a strengthening dollar. The USDA anticipates a strong import decline in 1989, which would partly explain the consumption fall. Canadian beef and veal imports rose significantly this year as a consequence of the production drop and strong consumption. As far as exports are concerned, while higher Japanese imports and a high valued yen seem to have sustained stronger United States exports, Canadian sales abroad were down. Both countries should export more next year.

15. South American exports have risen in the three major exporting countries, Argentina, Brazil and Uruguay. The three countries benefited from higher EC concessionary beef import quotas, but also from an increased import demand in a number of other markets (North America, the Middle East and North Africa), but the means to achieve sales abroad varied somewhat. In Argentina, where production is falling, exports were possible thanks to the domestic consumption drop. Meanwhile, higher Uruguayan exports were due to increased production, and were possible in spite of stronger domestic consumption. Argentinian export prices averaged US\$1,147 per ton f.o.b. from January to September, which, being lower by 15 per cent than year earlier, was higher by far than the 1985/86 lows. Uruguayan export prices fell more significantly than Argentinian ones (-23 per cent) during the same period and, in the third quarter of the year, they were at lower levels than in 1986 (US\$966). Brazilian exports reflected the production rise and consumption drop. From January to August they almost doubled in volume, while their value went up by more than 60 per cent. While both Brazilian and Uruguayan exports are expected to rise further next year, sales by Argentina should stagnate.

16. Exports of beef and veal from Oceania have been favoured by strong import demand in the major markets: the United States and Japan. Australia has also, until recently, taken advantage of a depressed national currency. However, limited export availabilities, the "VRA" imposed by the United States, and the recent appreciation of the Australian dollar, had a dampening effect on both export volumes and export prices which, expressed

¹As happened in 1987, the surge in imports resulted in a request addressed to both Australia and New Zealand to "voluntarily" restrict their exports there. Both countries reluctantly accepted the request.

in Australian dollars have dropped significantly (in August, at A\$2,631 per ton f.o.b. they were below August 1986 levels). New Zealand is only now emerging from the troubled 1986/87 period and while it has had the product available, it has not been in a position to fully take advantage of the stronger import demand in its largest traditional market (the United States) also because of the imposition of "VRAs" by the latter in the last two years. A strong New Zealand dollar during most of the year was another factor hampering New Zealand beef export performance in 1988. Nevertheless the expected continuing strong import demand in North America, the gradual opening of the Japanese market, the re-opening of the Korean market, as well as steady demand in other East-Asian countries, seem to be clear reasons to expect good prospects for, inter alia, the oceanic countries.

17. The European Community is expected to register increased import levels this year as a result of higher import quotas and "autonomous" quotas introduced under different import schemes. A further rise should intervene next year. As indicated, in spite of declining production, EC stocks, although falling, remained high. This, and higher export restitutions, have allowed the Community to increase its export levels through increased sales to the Middle East and East European countries. In 1989 lower production and reduced stock levels should result in a significant export fall.

18. The export levels of most other European countries are falling as a result of declining output, while important purchases of bovine meat have been made (or will shortly be concluded) by certain East European countries. In Japan, strong consumer demand resulting from higher incomes, coupled with a lower beef production and a sharply strengthened yen, provoked much higher import levels this year. The above-mentioned gradual import liberalization will result in further rises in the years to come.

19. Available data suggest that imports by the USSR were up in 1988 (while negotiations for a 200,000-ton purchase to the EC seem to be continuing). This would be the result of the production drop and continuing bovine meat shortages. Meanwhile, imports from Iran and Irak seem to be up reflecting the end of the war, while some North African countries might also be buying more beef and veal.

20. In summary, in spite of generally somewhat lower beef and veal export prices in the current year, prospects for strong import demand in major areas and reduced export availabilities in some major exporting countries, coupled with probable higher prices for competing meats, seem to guarantee an improved outlook for the bovine meat sector for the short to medium term.

TABLE 1
SELECTED COUNTRIES' TRADE IN BEEF AND VEAL^{1/}

A. EXPORTS

	1987	Estimates 1988	%Change 1988/87	Forecast 1989	%Change 1989/88
Argentina	287	315	9.8	315	0.0
Australia	911	874	-4.1	879	0.6
Brazil	297	400	34.7	450	12.5
Canada	91	81	-11.0	88	8.6
EC	866	900	3.9	650	-27.8
New Zealand	432	431	-0.2	435	0.9
United States	277	284	2.5	306	7.7
Uruguay ^{3/}	93	130	39.8	145 ^{2/}	11.5
Others ^{3/}	287	267	-7.0	264 ^{2/}	-1.1
TOTAL	3,541	3,682	4.0	3,532	-4.1

B. IMPORTS

	1987	Estimates 1988	%Change 1988/87	Forecast 1989	%Change 1989/88
Brazil	151	92	-39.1	92	0.0
Canada	135	165	22.2	149	-9.7
EC	411	420	2.2	435	3.6
Japan ^{2/}	329	400	21.6	440 ^{2/}	10.0
United States	1,040	1,079	3.8	1,009	-6.5
USSR ^{4/}	342	370	8.2	380 ^{2/}	2.7
Africa	400	420	5.0	430 ^{2/}	2.4
Other Asia ^{4/}	127	130	2.4	140 ^{2/}	7.7
Middle East ^{4/}	127	132	3.9	140 ^{2/}	6.1
Eastern Europe	45	58	28.9	60 ^{2/}	3.4
Other Europe	24	27	12.5	28 ^{2/}	3.7
TOTAL	3,131	3,293	5.2	3,303	0.3

^{1/} '000 tons carcass weight equivalent, includes fresh, chilled, frozen, cooked, canned and otherwise prepared bovine meat; excludes carcass weight equivalent of live cattle.

^{2/} Secretariat estimate. Should be regarded more as a trend indication than as an accurate figure.

^{3/} Includes all other exporting countries participating in the Arrangement Regarding Bovine Meat. Estimates by the secretariat.

^{4/} Source: USDA Dairy, Livestock and Poultry, World Livestock and Poultry Situation, September 1987.

III. COUNTRY-BY-COUNTRY ANALYSIS

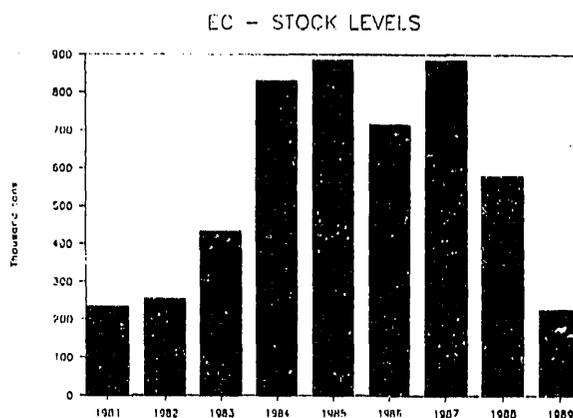
European Community

21. Estimated cattle and calf numbers in the European Community fell by 1.5 per cent, to 78.3 million head in 1988, largely reflecting the continuing effect of dairy quotas. With the exception of beef cows, the number of virtually all other categories of cattle has fallen again this year. Dairy cows in particular may have declined by 4-5 per cent. However, in spite of rising beef cow numbers, the transfer from dairy cow raising to that of beef cows remains uneven among the different Community countries. The extension of the milk quota system until 1992 suggests that the declining trend in cattle numbers could continue until the mid-1990's. Recent projections published by the OECD put cattle numbers at 75.7 million head by 1992, a 10 per cent drop compared to 1984, when the dairy quotas were implemented. Cattle and calf slaughter is expected to have fallen this year by some 5 per cent, partly reflecting producers' improving prices, resulting in a similar drop in beef and veal production. This trend should continue next year, but increasing slaughter weights of all categories of cattle, added to rising beef cow numbers, might well translate into higher production levels by 1990-91. Bovine meat consumption rose by an estimated 1 per cent this year, as a result of higher consumer expenditure and presumably, more highly priced competing meats due to more expensive feedgrains (although poultry meat intake is expected to grow further, it is thought that that of pigmeat will be lower). Should current estimates be accurate, then beef and veal consumption in the EC will surpass production next year for the first time in years (the estimated self-sufficiency ratio will be 98.2).

22. As a result of higher concessionary beef import quotas, total beef and veal imports in 1988 should total 420,000 tons, up by 2.2 per cent compared to year earlier. The beef import quotas adopted for 1988 were the following: frozen beef ("GATT quota"), 53,000 tons; high-quality beef ("Hilton quota"), 34,300 tons; Australian buffalo meat, 2,250 tons; "autonomous import quota" of high-quality beef (opened to compensate third countries for the lower level of manufacturing beef quotas under the balance sheet scheme), 8,000 tons; "autonomous import quota", 12,000 tons; EC-ACP countries, 38,100 tons. Recently the Community agreed on a further 1,000 tons of high-quality beef import quota from Brazil and an equal one from Uruguay. Live cattle imports, which originated largely in Eastern Europe, have also increased this year, but may remain stable in 1989. Beef and veal purchases could rise by some 4 per cent next year.

23. In spite of declining production, and reflecting still high (even if falling) stock levels, estimated bovine meat exports totalled 900,000 tons, 4 per cent higher than year earlier. Most of the export rise occurred during the second half of the year and was due to a number of single contract sales. Faced with a declining US dollar and renewed South American competition in still depressed North African and Middle East markets, export sales were only possible through increased restitutions (in March 1988 and more recently, last October). Higher sales to Yugoslavia, a recent 60,000-ton sale to Poland and reportedly another 40,000 tons to Iran, have finally pushed stocks to lower levels than year earlier. By the

end of last September, stock levels were at 623,000 tons (already discounting the sale to Poland, but presumably not the more recent one to Iran). Current estimates put public stocks by the year end at some 451,000 tons, down by as much as 42 per cent from year earlier). Forecasts for 1989 put total stocks at some 226,000 tons, a figure considered by the Community to be around about "normal" for EC stock levels. While negotiations for a 200,000 ton-sale to the USSR, together with an agreed sale of the same quantity of butter, seem to be continuing, beef and veal exports for the next year are projected to fall by almost 30 per cent, reflecting lower production and stock levels, as well as increasing consumption.



Policy issues

24. While, with the approach of the year end, tension is increasing between the EC and the United States on the hormone issue (the EC hormone ban will also apply to the United States as of 1 January 1989) talks about further changes in the EC beef regime (which was made more flexible last April, with a 15 per cent diminution of intervention purchase prices) are continuing. The main points of the beef regime reform proposal are the following: for public intervention, (1) buying-in prices would be fixed under a tendering system and would operate only when (a) the EC average market price is below 88 per cent of the intervention price and (b) the market price for the individual member State or region is below 84 per cent of the intervention price; (2) a ceiling on buying-in of 200,000 tons per year will apply except in circumstances defined by the EC Commission or in the case of a significant decline in market prices. Carcasses would once more be eligible for intervention; (3) private storage aid would be maintained as an option.

25. As far as the premiums are concerned, the main proposals are aiming for harmonization among EC member countries and are as follows: (1) both the variable and calf premiums would be terminated from the beginning of 1989; (2) the suckler cow premium would be increased (from ECU24 to 40 per head); (3) the special beef premium paid to male animals would also be increased (from ECU25 to 40 per head) and the number of eligible animals would be increased from 50 to 75 head. This premium would be extended to the United Kingdom and Italy, and would be paid at farm level or by special derogation, at slaughter.

	1987	Estimates 1988	%Change 1988/87	Forecast 1989	%Change 1989/88
Cattle and calf numbers ^{1/} :	79,441.0	78,250.0	-1.5	77,840.0	-0.5
Beef and veal ^{2/} :					
Production	8,122.0	7,750.0	-4.6	7,500.0	-3.2
Consumption	7,505.0	7,575.0	0.9	7,640.0	0.9
Imports	411.0	420.0	2.2	435.0	3.6
Exports	866.0	900.0	3.9	650.0	-27.8
Stocks ^{3/}	886.0	581.0	-34.4	226.0	-61.1
	^{1/} ,000 head, December	^{2/} ,000 tons		^{3/} Total stocks, 31 December	

Finland

26. Cattle and calf numbers in Finland have been falling with almost no interruption since the beginning of the decade, reflecting the impact of the dairy cessation programmes. By December 1988, estimated cattle and calf numbers were, at 1,392,000 head, 3 per cent lower than year earlier. This picture is not expected to change much in 1989, when cattle and calf numbers are projected to fall further, mostly as a result of the drop in the dairy herd. The beef herd, which increased somewhat this year, should remain relatively unchanged in 1989.

27. During the first half of 1988 and reflecting the farmers' expectations concerning the implementation of the current year's dairy termination programme, cattle slaughter fell by around 10 per cent. However, this situation was considered to be temporary and it was expected that, during the summer, when contracts resulting from the dairy programme had been made (i.e., when the decisions determining farmers eligible for compensation had been taken) some 20,000 animals would be slaughtered. In these conditions, beef and veal production from January to June could only decline (-9 per cent). This provoked an unusual shortage of domestic beef supply: beef producers' prices exceeded the target price by more than 5 per cent and, as stipulated in the Farm Income Act, imports of bovine meat were allowed (at significant levels) for the first time since 1983. The shortage of domestic supply was further aggravated by a surge in domestic beef and veal demand. In spite of higher real retail prices (+3.7 per cent) and reflecting stronger consumers' disposable income, per capita beef and veal consumption rose by close to 4 per cent.

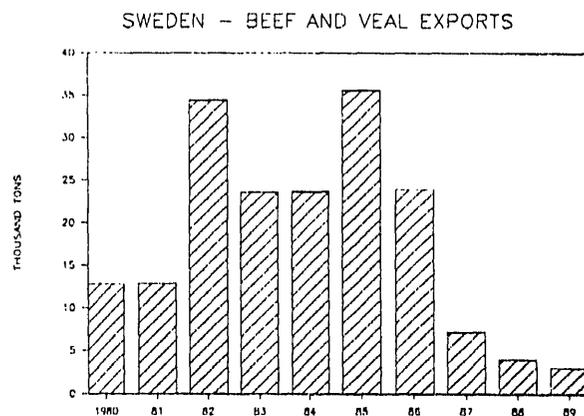
28. By the year end, beef and veal output is expected to have fallen by around 6 per cent compared to year earlier, reflecting a similar drop in slaughter levels. In the meantime, estimated consumption is for 21 kg. per

recovery for cattle numbers from this year's 1,645,000 head (an historical low, and roughly 30 per cent below the beginning of the 1960's level) to some 1,655,000 head. This recovery could well be related to the termination of the two-price system which will expire on 1 July 1989. Indeed, dairy cow numbers, which have logically been largely responsible for the herd decline, are expected to stabilize next year, while beef cow numbers and calf numbers should rise somewhat. In the meantime, cattle and calf slaughter levels, which will fall in 1988 for the fourth consecutive year (-7.6 per cent), should stabilize in 1989.

31. Rising without interruption since 1985, average dressed carcass weight should reach some 240 kg. in the current year (23 kg. higher than three years ago), not only reflecting the declining share of calf slaughter in the total mix, but also cheap feedgrain prices and consequent heavier cattle. In these conditions, the drop in beef and veal production during the first half of the year was limited to some 10 per cent, as against a 13 per cent drop in slaughtering. Estimated production by the year end is 129,000 tons, 4 per cent less than year earlier, while estimated cattle slaughterings will fall by close to 8 per cent.

32. As a consequence of the production fall, beef and veal consumption decreased by some 9 per cent from January to June 1988. The estimated fall for the year as a whole is 3 per cent, to 16.8 kg. per capita. The evolution in cattle prices is certainly also playing a role in the consumption drop. Although no precise data are available as far as retail prices are concerned, an analysis shows that during the first half of the year cattle prices rose sharply (+19 per cent during the first quarter) and wholesale prices were up by an average 8 per cent. These rises were certainly reflected in retail prices, and may have diverted consumer demand to other meats, the consumption of which, contrary to that of beef and veal, is expected to increase again this year.

33. As a result of the success of the two-price system beef production fell and Sweden again became a net importer of bovine meat last year. Estimated imports for 1988 are 19,000 tons which, following expected production gains next year, should fall to 16,000 tons in 1989. Imports of fresh and chilled beef, usually between only 200 and 400 tons per annum, reached 1,600 tons during the sole first quarter of the year (Poland and Denmark were the major suppliers), while frozen beef imports (most of which are high-quality cuts) totalled 3,000 tons (with an average value of US\$4,272 per ton c.i.f.) and came mostly from Poland, Yugoslavia and Australia. Swedish exports of bovine meat this year run well behind 1985 record levels: 1,500 tons sold abroad during the first quarter of the year and no more than an estimated 4,000 tons to be exported for the year as a whole (in 1985 exports had totalled 35,400 tons).



Policy issues

34. As mentioned above, the two-price system for milk which was introduced on a three-year trial basis for the period July 1985 to June 1988, and was extended for one more year, will expire on 1 July 1989. The system, which was essentially intended to discourage milk surplus production, was also successful in eliminating beef surpluses.

	1987	Estimates 1988	%Change 1988/87	Forecast 1989	%Change 1989/88
Cattle and calf numbers ^{1/} :	1,655.0	1,645.0	-0.6	1,655.0	0.6
Beef and veal ^{2/} :					
Production	135.0	129.0	-4.4	131.0	1.6
Consumption	145.0	141.0	-2.8	142.0	0.7
Imports	15.7	19.0	21.0	16.0	-15.8
Exports	7.2	4.0	-44.4	3.0	-25.0
	^{1/} ,000 head, June			^{2/} ,000 tons	

Switzerland*

35. Estimated cattle and calf numbers by April 1988 totalled 1,820,000 head, down by 2 per cent compared to year earlier. This reflects the dairy cattle herd reduction (-1.6 per cent) and the decline in calf numbers (-2.9 per cent). Since the end of the seventies and following the introduction of the milk quotas system, Swiss cattle and calf numbers have been continuously declining. In 1986, this trend was accelerated by depressed prices due to the 1985/86 beef over-production and, in the April 1987 census, cattle numbers showed the strongest fall in years (all categories of cattle registered a decrease, but this was particularly strong for beef cattle). Producer prices began to recover again as from the second quarter of 1987 and, for the year as a whole they were, in real terms, 2.4 per cent higher than year earlier. The current year estimates suggest that the cattle herd situation is now back to more "traditional" patterns, i.e., a decline in dairy cattle numbers and a rise in beef cow numbers. As a result of the price rises, cattle slaughter in 1987 went up by 1.8 per cent, due to higher slaughter of female cattle and calf.

36. Bovine meat production went up by 2.6 per cent last year, to 173,800 tons but, reflecting expected lower slaughter levels, should increase only marginally this year. It is worth noting that per capita consumption rose by almost 4.5 per cent, to 27.9 kg., even if retail prices increased slightly. This represents a 1.2 kg. per capita increase while, at the same time, pigmeat consumption dropped by 0.8 kg. (with a similar

price rise) and poultry meat intake rose by 0.7 kg. Contrary to what previous estimates seemed to indicate, it thus appears that poultry meat is competing more with pigmeat than with bovine meat.

37. Reflecting the strong increase in demand, beef and veal imports in 1987 rose significantly to 12,700 tons, 17.6 per cent up from year earlier. Around 50 per cent of the imported meat was fresh or refrigerated and came from South America (1,700 tons from Argentina and 1,500 tons from Brazil) and the European Community (1,200 tons). Imports of frozen meat, which accounted roughly for a quarter of the total, came mostly from Argentina (1,750 tons). Canned and cooked product came essentially from the EC (2,800 tons). Projections for the current year put total beef and veal imports at some 13,000 tons. Exports last year reached the record level of 5,250 tons, of which more than 3,000 tons of frozen beef went to Brazil.

	1986	1987	%Change 1987/86	Forecast 1988	%Change 1988/87
Cattle and calf numbers ^{1/} :	1,902.0	1,857.6	-2.3	1,820.0	-2.0
Beef and veal ^{2/} :					
Production	169.4	173.8	2.6	175.0	0.7
Consumption	177.6	187.0	5.3	190.0	1.6
Imports	10.8	12.7	17.6	13.0	2.4
	^{1/} ,000 head			^{2/} ,000 tons	

Austria

38. With a 2 per cent fall in 1988, Austrian cattle and calf numbers continued the downward trend initiated in 1985. All categories of cattle numbers without exception fell, dairy cows showing the major drop in absolute terms: 988,000 head in 1987 and 963,000 head this year. Due to the total lack of data for 1988 and 1989, concerning slaughter, production, consumption and trade, it is difficult, if not impossible to have a correct picture of the current and future Austrian bovine meat sector. Last year's 1 per cent drop in slaughter rates suggested that cattle herd reduction might be slowing down. Indeed, in spite of slightly higher cow slaughter, adult male cattle culling was somewhat down and calf slaughter, especially, fell by 3 per cent. Higher carcass weights partly compensated for lower slaughter levels, and beef and veal production in 1987 seems to have fallen by a marginal 0.4 per cent. Meanwhile, and for the second year in this decade, per capita beef and veal consumption went up by almost 1 per cent to 22.6 kg., reflecting relatively unchanged beef retail prices in real terms.

39. Austrian beef and veal exports have been rising steadily in the last few years and, since the beginning of the 1980's they more than trebled, totalling last year's 63,000 tons. Exporting traditionally almost only fresh and chilled product, Austria sold 1,000 tons of frozen product for the first time last year. Canned or cooked sales abroad remain unknown. Italy absorbed about 81 per cent to the total beef and veal exports, followed by the Federal Republic of Germany which imported some 13 per cent. Also an exporter of live cattle, Austria sold 20,000 head in 1987, of which 13,000 head went to Libya and 4,000 head went to Italy.

	1987	Estimates 1988	%Change 1988/87	Forecast 1989	%Change 1989/88
Cattle and calf numbers ^{1/} :	2,637.0	2,586.0	-1.9	...	...
Beef and veal ^{2/} :					
Production	237.4	...	...	...	...
Consumption	171.0	...	...	...	...
Exports	63.0	...	...	...	...
	^{1/} ,000 head		^{2/} ,000 tons		

Bulgaria

40. Available data for the first half of 1988 show that industrial production of all types of meat rose by 10 per cent, to some 270,000 tons. The only production data available concerning a specific type of meat output concern poultry meat which accounts for slightly more than 20 per cent of overall meat supply. From January to June 1988 it went up by some 18 per cent, to 60,700 tons. Beef and veal production, which in 1987 seems to have remained relatively unchanged at 107,500 tons, seems nevertheless to have fallen during the first half of the year. At least, this is what trade figures suggest: during that period beef and veal imports rose from a mere 500 tons last year to 4,600 tons in 1988, while exports fell by 45 per cent, to 3,300 tons. With an 87 per cent market share, Bulgaria's major supplier of beef was, by far, Poland, while exports, more than 80 per cent of which traditionally go to Jordan, went to other different markets, with Jordan appearing not to have imported Bulgarian beef (virtually all frozen "baby veal") during the first half of the year. Reflecting more than double the usual sales to Libya, live cattle exports increased sharply to 19,000 head, more than the export level reached during the whole of 1987.

	1987	Estimates 1988	%Change 1988/87	Forecast 1989	%Change 1989/88
Cattle and calf numbers ^{1/} :	1,678.0	1,660.0 ^{3/}	-1.1	...	...
Beef and veal ^{2/} :					
Production	107.5	106.4 ^{3/}	-1.0	...	...
Consumption	98.0	97.0 ^{3/}	-1.0	...	...
Imports	4.7	4.6 ^{4/}	820.0 ^{4/}	...	...
Exports	9.5	3.3 ^{4/}	-45.0 ^{4/}	...	...
^{1/} ,000 head		^{2/} ,000 tons		^{3/} Secretariat estimates	
^{4/} January-June 1988					

Hungary*

41. The Hungarian cattle herd has been declining with only one interruption (in 1982) since the beginning of the eighties. A major reason for this was low profitability in the sector as a consequence of depressed prices, which continued last year when cattle numbers registered a close to 6 per cent drop, to 1,664,000 head at 1 January 1988. A further decline is expected for the current year. Slaughter levels increased by almost 4 per cent and revised data for beef and veal production (which now include total slaughter and not only slaughterhouse production) show a 0.6 per cent rise, to 125,000 tons. The reason for higher slaughter is that the bovine meat sector has been faced with important difficulties over the last few years, leading to the disengagement of cattle producers, in spite of Government efforts and measures to minimize them. Producer prices, unchanged since 1984, were increased by 8 per cent at the beginning of 1987.

42. One of the reasons for the difficulties in the bovine meat sector, apart from more general economic conditions, is the competition from both pigmeat and poultry meat. Indeed, while the per capita consumption of beef and veal seems to have declined by 1-2 per cent, both pigmeat and especially poultry meat intake have risen, the latter rising over the last few years faster than the former. During the first half of 1987, Hungary exported 16,100 tons of beef and veal, 12 per cent less than year earlier, but exported 13 per cent more of live cattle: 68,400 head. As usual, the largest part of the bovine meat exports (92 per cent) was frozen and virtually all went to the USSR, while live cattle sales went there as well (44 per cent), also going to Saudi Arabia (24.3 per cent), to Italy (18 per cent) and to Lebanon (14 per cent). The average export price of frozen beef to the USSR was US\$1,059 per ton f.o.b. during the first quarter of 1987, and of US\$1,096 during the second quarter, respectively 25 and 24 per cent higher than year earlier. In the second half of the year, export

trends reversed and, while beef and veal exports were, at 40,300 tons, marginally higher than year earlier (and went undoubtedly especially to the USSR), at an estimated 156,000 head, cattle sales fell after all, by 16 per cent last year. A further decline is expected for 1988. Imports of beef and veal dropped to 12,000 tons (-28.1 per cent) and live cattle purchases were nil compared to 31,800 head in 1986.

	1986	1987	%Change 1987/86	Forecast 1988	%Change 1988/87
Cattle and calf numbers ^{1/} :	1,766.0	1,664.0	-5.8	1,635.0 ^{3/}	-1.7
Beef and veal ^{2/} :					
Production	124.2	125.0	0.6	123.0 ^{3/}	-1.6
Consumption	88.5	89.0 ^{3/}	0.6	89.0 ^{3/}	0.0
Exports	40.1	40.3	0.5	35.0 ^{3/}	-12.7
Imports	16.7	12.0	-28.1	10.0 ^{3/}	-16.7

^{1/}, '000 head, 1 January ^{2/}, '000 tons ^{3/} Secretariat estimates

Poland

43. In 1988, Poland entered its ninth year of virtually uninterrupted cattle herd liquidation. According to the last June 1988 cattle census, cattle numbers at 10.3 million head were down by 1.9 per cent from year earlier. Total cattle and calf slaughter fell by 3.2 per cent last year, and prospects are for a relatively strong production fall in 1988, suggesting that the downward tendency of cattle numbers might be inverted in the near future. Indeed, while the sector continues to struggle against low profit margins (in spite of the authorities' decision to raise prices last January) and insufficient feeding availabilities, forecasts are for a slight increase in numbers next year.

44. Beef and veal production fell by 2.5 per cent, to 688,000 tons in 1987, reflecting lower slaughter levels and only marginally higher weights. In 1988, estimates are for a further 5 per cent output decline. Consumption dropped by 1.1 per cent, to 626,000 tons last year as a result of higher retail prices and export levels. It is expected to fall by almost as much as production this year. As has been noted in previous reports, pigmeat is by far the preferred meat in the country and, with prices in some cases more than 50 per cent higher, its intake (1987) is nevertheless twice as high as that of beef and veal. Poultry meat consumption, although still at a relatively low level, has been rising steadily over the last few years: 59 per cent since 1983 (beef and veal, 7.9 per cent and pigmeat, 17 per cent, during the same period).

45. Beef and veal exports increased by as much as 25 per cent in the first half of 1988, to 35,200 tons. Poland exports virtually no frozen bovine meat, and 88 per cent of total exports consists of fresh and chilled product, the rest being canned and cooked. The Soviet Union which in 1987 absorbed 40 per cent of Polish sales of fresh and chilled beef and veal has probably imported a similar percentage from January to June 1988, while Sweden imported 17 per cent and the EC only 4 per cent. Exports of canned and cooked meat all went, by and large, to the Federal Republic of Germany. In spite of higher export levels during the first half of the year, a smaller drop in consumption than in production and recent massive imports from the EC (60,000 tons) suggest lower export levels for the year as a whole when compared to 1987. Live cattle exports rose sharply from January to June (+65.7 per cent compared to year earlier), 65 per cent of which went to the EC.

	1987	Estimates 1988	%Change 1989/88	Forecast 1989	%Change 1989/88
Cattle and calf numbers ^{1/} :	10,523.0	10,322.0	-1.9	10,350	+0.3
Beef and veal ^{2/} :					
Production	688.0	653.0 ^{3/}	-5.1	...	...
Consumption	626.0	598.0 ^{3/}	-4.5	...	...
Exports	65.6	48.0 ^{3/}	-26.8	...	...
	^{1/} ,000 head, 21 April	^{2/} ,000 tons		^{3/} Secretariat estimates	

Yugoslavia*

46. Contrary to earlier estimates, cattle herd liquidation, initiated in 1982, did not stabilize last year. It even accelerated. At 4.8 million head by 15 January 1988 (-4.1 per cent) cattle and calf numbers have reached their lowest level of, at least, the last 25 years. No details are available concerning either the decline in numbers or slaughter levels. However, it may be noted that production increased by almost 2 per cent, indicating that slaughter weights have improved markedly. In Yugoslavia, approximately 85 per cent of the cattle is purchased by slaughterhouses on the basis of agreed co-operation with socially and privately owned holdings and 15 per cent is purchased on the free market. In 1987, 209,000 tons out of the total 345,000 tons were produced in the slaughtering industry. Per capita beef and veal consumption in 1986 fell by 5 per cent, to 13.4 kg. Although no official data are available, it had been estimated that last year per capita intake totalled some 14-14.5 kg. At the time, such a figure was considered to reveal a consumption decline. It now appears that, should such estimates prevail, they represent a considerable increase (+4 to 8 per cent).

47. The analysis of production and trade suggests that, regardless to its absolute volume, bovine meat intake did increase. Indeed, while production went up, exports fell by about 5 per cent, to 27.5 thousand tons, and imports rose sharply to 41 thousand tons (+35 per cent) a level not reached since 1983. The second half of 1987 confirmed the beef and veal (especially "baby beef") export trends registered during the first six months: sales to Greece fell sharply from 4,300 tons in 1986 to a mere 1,300 tons; sales to Italy (more than 65 per cent of overall exports) rose by 20 per cent and, while Jordan, traditionally Yugoslavia's third major market, disappeared as a major destination, Kuwait emerged as the second most important buyer, with 2,500 tons. Imports (all fresh and chilled) originated in the European Community (85.5 per cent of the total, which came especially from Ireland, the Federal Republic of Germany and the Netherlands) while Poland emerged as the second largest supplier having sold 3,000 tons of beef to Yugoslavia last year. Exports of live cattle rose dramatically to 76,100 tons carcass weight equivalent (+77.4 per cent), which certainly played a role in the cattle herd decline, while imports trebled totalling 6,900 tons (C.W.E.).

48. Market prices, which are state controlled, were sharply increased in September 1987 in order to cope with high inflation rates and consequent strongly increased production costs. As a result, the annual average retail prices doubled (in real terms) and producer prices rose by more than 50 per cent (equally in real terms). In these conditions, it can be questioned whether a more than 5 per cent rise in consumption was indeed possible last year. Although no data are available for 1987, it can be noted that consumption of other meats rose in 1986 (while bovine meat intake fell) and that pigmeat, up by 15 per cent, to 37.7 kg. per capita, is by far, the preferred meat.

	1986	1987	%Change 1987/86	Forecast 1988	%Change 1988/87
Cattle and calf numbers ^{1/} :	5,034.0	5,030.0	-0.1	4,822.0	-4.1
Beef and veal ^{2/} :					
Production	339.0	345.0	1.8	350.0 ^{3/}	1.4
Consumption	301.0	317.0	5.3	317.0 ^{3/}	0.0
Imports	30.3	40.9	35.0	35.0 ^{3/}	-14.4
Exports	29.0	27.5	-5.2	23.0 ^{3/}	-16.4
	^{1/} ,000 head, 15 January	^{2/} ,000 tons		^{3/} Secretariat estimates	

South Africa

49. The cattle herd rebuilding initiated in 1986 continued this year with estimated cattle and calf numbers showing a recovery of almost 4 per cent,

to 8,350,000 head by August 1988. Cattle and calf slaughter, which fell by about 11 per cent in 1987, is expected to fall even more this year (-15 per cent). Although calf slaughter is expected to remain unchanged, that of cows, heifers and adult male cattle is estimated to drop sharply. Reflecting an enlarged cattle herd, total slaughter is projected to rise by as much as 18 per cent next year, a progression expected to continue during 1989, but at a slower rate.

50. Such drops in slaughter rates could only result in lower production levels, even if, as a result of improved seasonal conditions and final increased grain feeding, average carcass weights rose by an impressive 4 per cent. Thus, during the first half of 1988, beef and veal output fell by almost 8 per cent and, by the year end, production should total some 554,000 head, down by 6 per cent from last year. In line with the expected upturn in slaughter levels in 1989 and 1990, beef and veal production should rise again in the short to medium term.

51. Sharply increased beef retail prices (sirloin, super A prices rose by 20 per cent in real terms) during the first six months of the year discouraged beef consumption, which fell by more than 2 per cent. According to preliminary data, consumer demand may have been diverted to pigmeat whose real prices only rose by 1 per cent (there seem to be large availabilities of pigmeat on the market). Consumption of this type of meat may have risen by some 4 per cent, while that of poultry meat is estimated to have risen by 2 per cent. Increased beef and veal production next year is again expected to stimulate consumption somewhat.

52. Beef and veal imports, which totalled 47,000 tons last year and presently number 10,700 tons, fell from January to June 1988 by half compared to year earlier. Estimated import levels for the year as a whole are for 12,500 tons, and should as usual come from neighbouring countries, but maybe also from the European Community. In 1989, imports might rise somewhat and remain relatively stable in 1990.

	1987	Estimates 1988	%Change 1988/87	Forecast 1989	%Change 1989/88
Cattle and calf numbers ^{1/} :	7,909.0	8,201.0	3.7	8,350.0	5.6
Beef and veal ^{2/} :					
Production	590.4	554.0	-6.2	584.4	5.5
Consumption ^{3/}	581.0	568.0	-2.2	570.0	0.4
Imports	47.0	12.5	-73.4	14.1	12.8
^{1/} ,000 head, 31 August		^{2/} ,000 tons		^{3/} Estimates	

Tunisia*

53. Cattle and calf numbers in Tunisia, which have been rising steadily since 1983 (with a brief interruption in 1986 apparently as a result of the 1985 drought conditions in the country), rose again last year by 6.7 per cent, to 666.3 thousand head. Current projections are for further increases in 1988 and 1989. Bovine meat production fell by 4 per cent in 1987, to 32,000 tons, reflecting lower slaughter levels. With these and slaughter weights expected to rise in the current year, estimated production is forecast to rise by more than 7 per cent, to total some 34,300 tons.

54. Difficult general economic conditions in the last few years have hampered beef and veal consumption which, in spite of unchanged state-controlled retail prices since 1985, has been declining since 1984. Last year, per capita consumption fell by 6 per cent, to 6.3 kg. Unlike what is happening in many other countries, the drop in bovine meat consumption has not been accompanied by an increase in other meats' intake. Indeed, the consumption of both poultry meat and sheepmeat also fell, in spite of prices which can be less than half those of beef. Some improvement seems to be under way, and the consumption of all types of meat is now expected to rise in the current year.

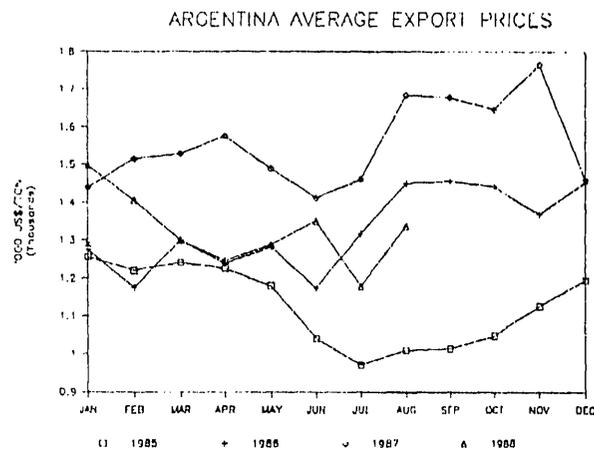
55. Traditionally an importer of live cattle and bovine meat, Tunisia has been reducing its purchases of live animals in recent years (60,000 head in 1984 and 12,000 head in 1987) and buys some 10,000-15,000 tons of beef per year. In 1987, bovine meat imports amounted to 11,075 tons (6 per cent higher than year earlier), more than 75 per cent of which were fresh and chilled meat coming from the European Community (France and the United Kingdom). As a result of the expected production rise, imports are forecast to fall somewhat this year.

	1986	1987	%Change 1987/86	Forecast 1988	%Change 1988/87
Cattle and calf numbers ^{1/} :	624.3	666.3	6.7	669.7	0.5
Beef and veal ^{2/} :					
Production	33.3	32.0	-3.9	34.3	7.2
Consumption	50.2	48.5	-3.4	50.2	3.5
Imports	10.5	11.1	5.7	10.9	-1.8
	^{1/} ,000 head	^{2/} ,000 tons			

Argentina

56. Cattle and calf numbers in Argentina, currently at their lowest level since the beginning of the 1970's, were expected to show a further 1 per cent drop by last June. This decline, being much smaller than the 3.2 per cent one registered last year, suggests that the cattle herd liquidation initiated in 1985 might be coming to an end. Also, from January to September 1988, total cattle slaughter fell by more than 4 per cent. Indeed, if it had not been for the drought, which has stricken the country, especially the main cattle producing area (by the end of September, 70 per cent of the "pampas" was virtually out of production), cattle slaughter might have levelled off much more (during the first four months of the year, before the drought, cattle slaughter fell by 10 per cent). It is now admitted that, if improved weather conditions prevail during the rest of the year and cattle slaughter declines again significantly, it will fall by around 6 per cent for the year as a whole, to about 12 million head. Another factor suggesting the end of cattle herd reduction is the percentage of female cattle slaughter in the total mix: 40.5 per cent during the first eight months of 1988, 45.4 per cent last year and 48 per cent in 1985. In line with declining cattle slaughter, beef and veal production should fall by 5 per cent this year and by a further 4 per cent in 1989.

57. Argentinian cattle prices, which in real terms rose sharply between January 1986 and August 1987, have fallen back again over the last few months to the levels of beginning 1986. Adverse climatic conditions (late frosts followed by drought) seem to be the main reasons for the price drop (from a ten-year record level of 147 in August 1987, the steers index price at Liniers fell to 74 in May 1988). However, it seems that cattle prices, began to show a marked recovery in September, apparently reflecting stronger herd retention by the producers, since the rain started to fall again. Argentinian export prices, although at higher levels than the lows registered in 1985 and 1986, were on average 15 per cent lower from January to September 1988 (US\$1,147 per ton f.o.b.) than during the same period of 1987. Per capita beef and veal consumption fell by 5 per cent, to some 77 kg. during the first three quarters of the year. The decline, which partly reflects the production fall, seems to be due to a strong drop in consumers' income, and to inflation, which is again escalating. Reportedly, it would seem that the Argentinians' declining purchasing power is resulting in a general drop in the consumption of agricultural products.



58. Relatively strong import demand, declining domestic consumption, and low export availabilities in a number of major exporting countries allowed Argentina to increase its exports of bovine meat between January and

September 1988, in spite of declining output. The increase, of 13 per cent, reflects higher exports of both canned and cooked meat and chilled and frozen beef and veal. Sales to the European Community of both types of products have increased strongly (canned and cooked +18.7 per cent; chilled and frozen +34 per cent) and by and large explain the progression of the Argentinian sales this year. Exports of canned and cooked beef to the United States fell by 10 per cent. The expansion of exports to South East Asia, although at relatively modest levels, continued (Hong Kong - 4,700 tons, +81 per cent; Singapore - 2,400 tons, +85 per cent), while sales to the Middle East (Iran, Saudi Arabia, Israel) seem to be surging again. As mentioned earlier, average export prices were US\$1,147 per ton f.o.b. Although lower than year earlier, export prices remain attractive and the likelihood of a continuing rise in import demand in a number of markets allows for some optimism. The question is, will Argentina have enough export availabilities? Current estimates put the Argentinian export levels at some 315,000 tons for the year as a whole, up 10 per cent from last year, but stagnant in 1989.

Policy issues

59. Argentina signed a trade and economic co-operation agreement with Angola, last April. Among the provisions, Argentina has granted Angola a credit of US\$2 million to finance its exports of canned meat. So far this year, there do not seem to have been any meat exports to Angola.

	1987	Estimates 1988	%Change 1988/87	Forecast 1989	%Change 1989/88
Cattle and calf numbers ^{1/} :	51,000.0	50,500.0	-1.0	50,000.0 ^{3/}	-1.0
Beef and veal ^{2/} :					
Production	2,700.0	2,568.0	-4.9	2,460.0	-4.2
Consumption	2,413.0	2,268.0	-6.0	2,145.0 ^{3/}	-5.4
Exports	287.0	315.0	9.8	315.0	0.0
	^{1/} ,000 head, 30 June	^{2/} ,000 tons		^{3/} Secretariat estimates	

Brazil

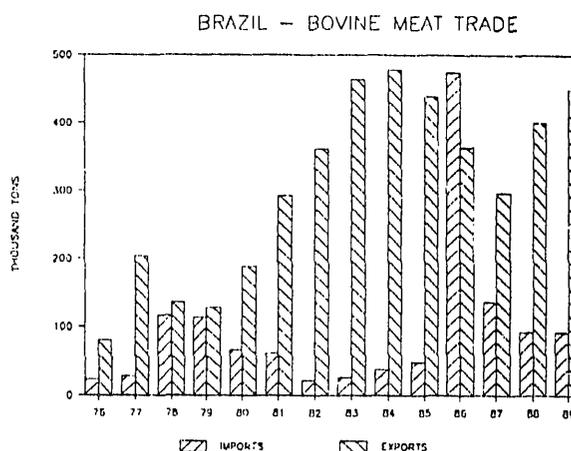
60. Estimated cattle and calf numbers in Brazil are expected to have continued their upward trend in 1988, rising by some 1.5-2 per cent, to 134 million head. A similar increase is projected for next year. However, the country's economic instability since the beginning of the 1980's has had obvious implications in the sector and the average annual cattle herd growth fell from 4 per cent in the 1970's to the current 1.5 to 2 per cent (below the population growth). The "sensitivity" of the Brazilian beef sector to the general economic situation is clearly illustrated by the

price and cattle slaughter situations since 1986. By then, the sharp rises in cattle prices provoked, by and large, by the "Cruzado" Plan, resulted in strong female cattle retention. In 1987 and until at least August 1988, prices fell back to close to 1982 levels, and producers' lack of confidence translated into renewed female cattle slaughter. This trend, this year also due to long and hard winter conditions, was not reverted by stronger prices last July/August. The perspectives for 1989 and 1990 remain pessimistic: lower investments in the sector and strong female cattle slaughter over the last two years should result in lower beef and veal supplies. Consequently, domestic prices should rise rendering bovine meat even less accessible to a large part of the population, confronted with extremely low per capita incomes.

61. Higher cattle slaughter levels during the first eight months of the year resulted in a 11.7 per cent production rise, compared to year earlier. The above-mentioned rise in female cattle slaughter puts estimated production by the year end at close to 2.4 million tons, 10 per cent higher than 1987. Lower availabilities should result in a 2 per cent production drop in 1989. With beef retail prices around US\$1.5-2 per kg. (rump steak), per capita consumption is surprisingly low and declining this year, to 13.5 kg. (-3.5 per cent). Indeed, as indicated, extremely depressed per capita incomes (a large part of the population lives with less than US\$1,000 per year), explain this low level of beef consumption, and an increasing shift towards cheaper poultry meat.

62. After the record levels reached in 1986 related to the "Cruzado" Plan, beef and veal imports in 1987 dropped to some 136,000 tons and are expected to fall further this year to below 100,000 tons, reflecting the production rise and consumption decline. Expected lower supply levels next year may induce the authorities to increase imports in order to check abnormal domestic price rises and further inflationary pressures in a country where this year the inflation rate would be close to 800 per cent. The same reasons which allowed imports to be lower also permitted exports to grow.

From January to August 1988, fresh, chilled and frozen beef and veal exports rose by more than 150 per cent, to 112,000 tons (product weight), while canned product sales abroad were up by 50 per cent, to 86,400 tons, the total export value reaching US\$415 million, more than 60 per cent higher than year earlier. Estimated exports by the year end are 400,000 tons, and available projections for 1989 put them at 450,000 tons. However, taking into account the expected drop in supply, and a projected rise in consumption, such an export level does not seem possible without imports of at least some 300,000 tons.



Policy issues

63. A new agricultural law is currently being drafted under the recently adopted Constitution. If, and how far it may affect the bovine meat sector, remains to be seen.

	1987	Estimates 1988	%Change 1988/87	Forecast 1989	%Change 1989/88
Cattle and calf numbers ^{1/} :	131,503.0	134,133.0	2.0	136,814.0	2.0
Beef and veal ^{2/} :					
Production	2,136.0	2,350.0	10.0	2,300.0	-2.1
Consumption	1,983.0	1,975.0	-0.4	2,240.0	13.4
Imports	136.0	92.0	-32.4	92.0	0.0
Exports	297.0	400.0	34.7	450.0	12.5
	^{1/} ,000 head			^{2/} ,000 tons	

Colombia*

64. According to revised figures, and at 23.3 million head last December (a 2 per cent drop compared to year earlier) the Colombian cattle herd went, in 1987, through its third year of liquidation. However, apparently in reaction to increasing prices (+42 per cent compared to 1986), producers seem to have decided to retain their cattle, and slaughter levels fell by more than 3 per cent. This could well mean that the end of herd liquidation might intervene soon. Indeed, forecasts for the current year suggest that total cattle and calf numbers might rise by about 1 per cent. Lower slaughter levels resulted in reduced production of beef and veal. The drop was of 3.3 per cent, to 573,000 tons. Colombia expects production to recover again this year to some 585,000 tons. For the first time since 1978, per capita consumption of bovine meat fell below 20 kg., to 19.5 kg. Although the decrease in total consumption (-3.5 per cent) paralleled the one in production, sharply higher retail prices (+40 per cent) and an increasingly stronger competition from poultry meat, which is about one third cheaper (and whose price seems to increase at a slower rate), appear to be the main reasons for this consumption drawback. After this third year of uninterrupted decline, the Colombian prospects are for a 2 per cent recovery of total beef consumption (or 0.6 per cent in per capita terms) in 1988.

65. Beef and veal exports rose by some 516 tons, to 11,555 tons. Out of these, some 11,150 tons were fresh and chilled meat, of which 86 per cent went to Peru. Venezuela, once Colombia's major exporting market, has not imported Colombian product since 1985. In 1987, the average export value of beef to Peru was US\$1,959 per ton f.o.b., a 15 per cent increase compared to year earlier.

	1986	1987	%Change 1987/86	Forecast 1988	%Change 1988/87
Cattle and calf numbers ^{1/} :	23,510.0	23,030.0	-2.0	23,267.0	1.0
Beef and veal ^{2/} :					
Production	592.5	573.1	-3.3	585.0	2.1
Consumption	582.5	561.9	-3.5	573.3	2.0
Exports	11.0	11.6	5.5	15.5	33.6
	^{1/} ,000 head, December	^{2/} ,000 tons			

Uruguay

66. Supported by strongly increased export prices since mid-1986, the Uruguayan cattle herd rose by 6 per cent in 1987 and by an estimated 4.5 per cent in the current year (30 June census). However, in response to continuing strong export demand and also firmer domestic demand, cattle slaughter has risen markedly since the second quarter of the year, and the June 1989 census is expected to reveal a 1.5 per cent drop in cattle numbers. During the second quarter of the year, slaughter levels increased by more than 17 per cent compared to year earlier (and by much more than is seasonally the case compared to the first quarter) and should show a similar increase by the end of the year. Even if, as indicated, stronger export and domestic demand seem to explain in part higher slaughter levels, the sudden cull rise in the second quarter of the year seems to be related especially to the sharp and certainly unexpected drop in export prices (-30 per cent in United States dollar terms) during and since that period, and to persistent drought conditions. Again faced with reduced profitability producers seem to have decided to liquidate their herds. In pesos terms, returns to producers between January and September fell by some 15 per cent, compared to year earlier, but remained higher than in 1986.

67. Higher slaughter levels resulted in a 12 per cent production increase during the first half of 1988. Projected production for the year as a whole is 317,000 tons (15 per cent more than last year). In 1989, cattle slaughter and beef production is expected to show similar developments, although at lower rates of increase. Stimulated by a 10 per cent drop in real retail prices, estimated per capita beef consumption which has been falling since 1985, rose by almost 9 per cent, to 63 kg. during the current year. Consumption of poultry meat which has progressed fast over the last few years (+29 per cent last year) increased less markedly (+7 per cent) in spite of a 6 per cent price decrease.

68. Down by as much as 50 per cent last year, beef and veal exports are expected to show a no less spectacular recovery from last year's 93,000 tons, to 130,000 tons in 1988. Major export destinations during the first half of the year have been the European Community, Egypt, Iran, Irak, Brazil and Saudi Arabia. Last July, Brazil announced its intention to purchase meat from Uruguay, Argentina and Paraguay. Brazilian imports from Uruguay totalled some 8,000 tons from January to June and, following the announcement, further imports of the Uruguayan product have been estimated at some 25,000 tons. In 1989, total beef and veal exports should reach 145,000 tons.

	1987	Estimates 1988	%Change 1988/87	Forecast 1989	%Change 1989/88
Cattle and calf numbers ^{1/} :	9,885.0	10,329.0	4.5	10,169.0	-1.5
Beef and veal ^{2/} :					
Production	276.0	317.0	14.9	338.0	6.6
Consumption	173.0	187.0	8.1	193.0	3.2
Exports	93.0	130.0	39.8	145.0	11.5
	^{1/} ,000 head, 30 June			^{2/} ,000 tons	

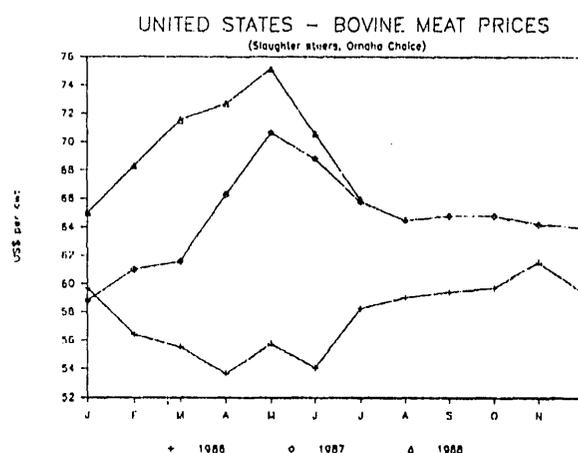
United States

69. The 1 July 1988 cattle inventory shows that, at 107.9 million head, the United States cattle herd liquidation, initiated in 1983, continued but slowed down (-1.5 per cent compared to year earlier). The decline in numbers of both dairy (-1 per cent) and beef cows (-1 per cent) along with a low calf crop in 1987 were largely responsible for the decrease. It is admitted that the decline in cow numbers could result in continuing modest drops of the total cattle herd through 1989 and possibly 1990. However, there are signs of an up-coming return to herd rebuilding: cow slaughter fell by more than 6 per cent during the first half of the year, and even if heifer slaughter remained high (only 3 per cent below last year), heifer retention increased markedly (the number of heifers entering cow herds increased by 10 per cent). In any case, in spite of these signs, drought reduced forage supplies, and higher feed costs may well postpone the expansion of the herd, which is not expected to occur before 1991.

70. The number of cattle on feed inventories remained large in the first half of the year and from January to July placements (higher than last year's) exceeded marketings, putting cattle on feed numbers at close to 9 million head, 4 per cent higher than year earlier. This evolution was reflected in fed cattle prices which, after having risen steadily since the beginning of the year, peaked in May (choice steer prices at Omaha reached US\$75.15 per cut) and fell sharply afterwards (-12 per cent in July), as a

result of large supplies of fed beef. In spite of this drop, average prices between January and August remained 7 per cent higher than year earlier. Since mid-August, prices have begun to recover again. Drought-induced higher grain prices, and short supplies of (and consequently high-priced) feeder cattle seem to have squeezed feedlot profits, but may be at the origin of the current price recovery. Nevertheless, even if feedlot placements are not expected to rise for the rest of the year, the large availabilities of other meats should keep fed cattle prices below last May's record levels.

71. Feeder cattle supply, after a 6 per cent drop in 1987, was down again last 1 July, by 3 per cent. As a result, prices have increased strongly and peaked last April. Although they then fell during May and June, prices have since recovered and have remained, on average, stronger than last year, as have fed cattle prices. The above-mentioned squeezed feedlot profits and large supplies of other meats, as well as the impact of droughts, seem nevertheless to be keeping pressure also on feeder cattle prices. It should however be noted that, as with fed cattle prices, current prices remain stronger than year earlier, and there are real prospects for higher (and maybe record) levels next year.



72. With the price situation having shown a marked improvement for more than two years, it might have been expected that producers would initiate cattle herd rebuilding. However, as in some other countries, they have preferred to pay off debts and improve their financial base. The above-mentioned rise in heifer retention seems to be a sign that this objective has been met.

73. The reduced cattle herd is at the origin of another beef production drop in 1988. However, although cow slaughter is expected to remain low in 1988, a higher proportion of fed cattle in the slaughter mix coupled with heavier dressed weights will partly offset the production fall, which should not exceed much more than 1 per cent. Therefore, as happened in 1987, the decline in output will come from processing beef supplies rather than grain-fed beef. In spite of the strong effect of supplies of other meats on beef price rises, retail prices for choice retail beef have been high and in June 1988 hit a new record level of US\$2.54 per pound. According to the USDA, the higher retail prices are partially offset for consumers by recent changes towards higher valued cuts that contain less bone and fat in the package. In any case, reflecting the production drop, and certainly also the high beef prices and lower prices of competing meats, per capita beef consumption is expected to fall by more than 1-2 per cent this year to 46.7 kg. and current forecasts put it as low as 43.4 kg. next year (-7 per cent).

74. From January to May 1988, the United States imported 505,800 tons, 20 per cent more than year earlier. Imports from Australia rose by 41.5 per cent, those from New Zealand went up by 10 per cent and those from Canada fell by 15.2 per cent. Brazil has seen its exports of cooked and canned product rise by 78 per cent. The increase in imports since the beginning of the year can be explained by the drop in production, the rise in the Meat Import Law "trigger level" (to 694,000 tons, product weight) and the high level of the United States dollar. Total beef imports are projected to be close to 1.1 million tons by the year end, and to decline in 1989. Imports of live cattle also rose sharply from January to May (+42.3 per cent), but by the year end they could be lower than in 1987 because of meat shortages in Mexico, by far the United States major live cattle supplier (78 per cent of total United States imports in 1987). Bovine meat exports by the United States are expected to rise in the current year, partly reflecting the higher Japanese import quota for the current year. Current forecasts are for 284,000 tons.

Policy issues

75. As a result of the surge in imports since the beginning of the year, it became evident that the 1988 "trigger level" under the Meat Import Law could be exceeded (from January to May meat imports subject to the Law had reached 344,000 tons, product weight, half of the "trigger level" quantity). In these conditions, and to avoid import restrictions, the United States formally requested, as they had in 1987, both Australia and New Zealand to "voluntarily" restrict their exports there. Both countries reluctantly accepted the request to limit their exports to 363,000 tons and 202,000 tons respectively. Had they not accepted it, their access to the United States market would have been limited to 315,000 tons in the case of Australia and to less than 202,000 tons in the case of New Zealand.

	1987	Estimates 1988	%Change 1988/87	Forecast 1989	%Change 1989/88
Cattle and calf numbers ^{1/}	109,500.0	107,900.0 ^{3/}	-1.5	106,900.0 ^{4/}	-0.9
Beef and veal ^{2/} :					
Production	10,883.9	10,729.7	-1.4	10,069.3	-6.2
Consumption	11,636.5	11,488.1	-1.3	10,778.7	-6.2
Imports	1,040.1	1,078.6	3.7	1,009.2	-6.4
Exports	277.1	283.5	2.3	306.2	8.0

^{1/},000 head, 1 July

^{2/},000 tons

^{3/}Actual

^{4/}Secretariat estimate

Canada

76. Canadian cattle and calf numbers on 1 July 1988 totalled 12 million head, 2.6 per cent up from year earlier. This was the first mid-year increase in the herd since 1980, and indicates that liquidation came to an end and that herd rebuilding is now well under way. With the exception of dairy heifers, which remained unchanged, all categories of cattle were higher than year earlier, and calf numbers and beef cows and heifers rose by 3 per cent each. Thus, unlike their neighbours in the United States, it appears that, stimulated by strongly increased cattle prices, Canadian producers decided to rebuild their herds. However, recent reports on the drought effects show that cow slaughtering and marketing in Western Canada are rising. Coupled with higher cattle numbers on farms and increased weights, this is resulting in a revival of production that is stronger than expected, being estimated to have risen by some 5 per cent in the third quarter of the year. However, available data suggest that by the end of 1988, production might remain slightly below last year's level. Nevertheless, even if the effects of the drought may temper the rising trend of cattle numbers, herd expansion is expected to continue.

77. As in the United States and in spite also of large availabilities of other meats, slaughter cattle prices in Canada remained relatively strong during the first eight months of 1988. A1, A2 slaughter steer prices at Toronto averaged Cdn\$ 88.57 compared to Cdn\$ 88.59 year earlier, while prices of D3 cows at Winnipeg and 600-700 lb. feeder steers at Edmonton were on average 5.6 per cent and 1.6 per cent higher. The similarity to the price situation in the United States was also reflected in the July-August price drop which was stronger than expected and by and large attributed to the drought impact, and in the feedlots operation, whose profits during the summer were strongly squeezed by lower fed cattle prices, higher feed costs and higher feeder cattle prices. Cattle prices are nevertheless expected to be stronger next year than in 1988, as a result of low supplies of feeder cattle.

78. As already mentioned, beef and veal production is expected to decrease somewhat in the current year, in spite of the drought effects. Major factors affecting the 1989 output level are thought to include: (1) low feeder cattle exports; (2) lower carcass weights as a result of higher feed costs; (3) normal seasonal conditions; and especially (4) the continuation of beef cow retention. Depending on the evolution of these factors, production may decline somewhat or rise modestly.

79. Last June's forecasts put beef consumption down by 2 per cent in 1988, thus continuing the downward trend initiated more than ten years ago. However, strongly increased real per capita disposable incomes and since last June, low profitability conditions in the pigmeat and poultry meat sector (as a result of drought-induced higher feed prices and low forage production), seem to be favouring the current domestic demand for beef and will probably continue to do so through 1989. In these conditions, and in spite of continuing relatively high beef prices, per capita consumption should show some increase by the end of both 1988 and 1989.

80. Canadian beef and veal imports to the end of July 1988 rose by around 53 per cent, to 91,900 tons, from year earlier. While imports from the United States have risen by 33 per cent (to 18,000 tons), imports from both Australia and New Zealand (frozen beef) rose by 44 per cent and 30 per cent respectively. At close to 27,300 head, imports of live slaughter cattle from the United States fell by some 33 per cent. The 1 per cent decrease in production now expected, and current import trends, may result in year end import levels well above last June's projection of 145,000 tons (to some 165,000 tons). Estimated beef and veal exports by the year end should be down by more than 10 per cent, while live slaughter cattle sales to the United States rose by 54 per cent, to 198,300 head, during the first eight months of the year.

Policy issues

81. On 2 January 1988, the Canadian Prime Minister and the President of the United States signed a trade agreement paving the way for the creation of a free-trade area between the two countries. The agreement, which should enter into force on 1 January 1989, contains, inter alia, a certain number of measures aiming at the trade liberalization of agricultural products. One of the results of the Free-Trade Agreement (FTA) was the agreed principle that both countries' meat import laws would not apply to each other. In these conditions, the Canadian Government has prepared a draft bill, not yet approved by Parliament and still under discussion, which amends the Import Act.

	1987	Estimates 1988	%Change 1988/87	Forecast 1989	%Change 1989/88
Cattle and calf numbers ^{1/}	11,750.0	12,060.0 ^{3/}	2.6	12,200.0 ^{4/}	1.2
Beef and veal ^{2/} :					
Production	976.8	965.7	-1.1	976.5	1.1
Consumption	1,021.3	1,040.0	1.8	1,045.0	0.5
Imports	135.3	165.0	22.0	149.0	-9.7
Exports	91.2	81.0	-11.2	88.0	8.6
	^{1/} '000 head, 1 July	^{2/} '000 tons		^{3/} Actual	
	^{4/} Secretariat estimate				

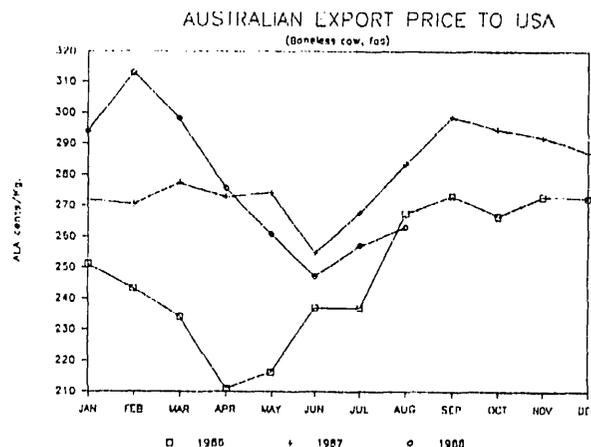
Australia

82. As suggested by previous reports, the Australian cattle cycle has been going through an atypical phase during the last two years. While strongly improved prices, since around mid-1986, might have encouraged producers to withhold cattle in order to rebuild their herds (as was traditionally the

case), a conjunction of factors has in fact caused them to react in the opposite way: in order to maximize their income they increased cattle turn-off. The factors behind the producers' behaviour seem to have been: (1) the need to recover cash flow quickly after years of depressed prices; (2) the coincidence of high inflation, high interest rates and a declining Australian dollar; and (3) strong import demand in major importing countries especially the United States and Japan. Preliminary cattle numbers indicate that at 23,600,000 head by March 1988, the Australian cattle herd fell slightly. However, an analysis of data shows an expected 2.5 per cent drop in cattle slaughter for the current year and a stronger one for the next year (-6.7 per cent). In other words, the cattle herd is expected to build up slowly this year and more strongly in 1989. Although this might be interpreted as the return of producers to more "traditional" behaviour, reflecting more confidence in the future, the rates of increase should fall short of those reached in the 1970's, revealing producers' caution.

83. As a result of lower cattle slaughter, beef and veal production is estimated to fall by 1.6 per cent in 1988 and by a further 6 per cent next year. When compared to the cattle slaughter declines, these production drops reveal improved carcass average weights resulting from generally good seasonal conditions and also maybe a more frequent recourse to grain feeding and finishing. Reflecting relatively low export availabilities, strong import demand (and consequent high domestic beef prices), per capita consumption should drop by 5 per cent this year, to 37.3 kg. An even more important drop is expected for 1989 (-11.3 per cent) and, by 1990, beef and veal consumption is only projected to reach some 32 kg. The years are long gone when, as in 1976 and 1977, consumption was close to 70 kg. This decline in beef and veal intake has clearly favoured cheaper poultry meat, whose per capita consumption jumped from less than 20 kg. in the beginning of the eighties to almost 25 kg. this year and is expected to reach 27-8 kg. in 1990. The current tendency for cattle herd rebuilding and the related production drop is expected to slow down as from 1990 and with the consequent production rise, it may be expected that as from 1991 onwards, pressure on domestic prices will level off and beef and veal consumption will strengthen again.

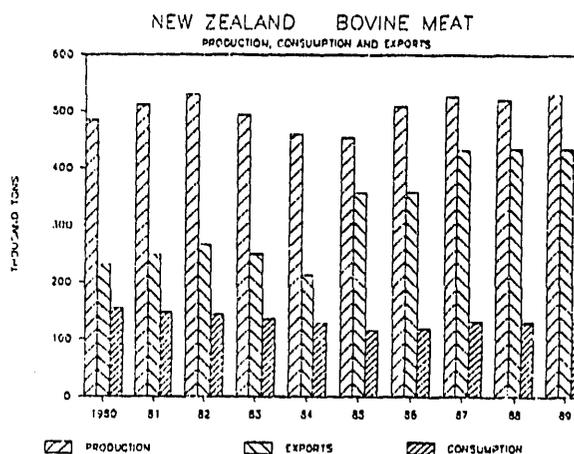
84. In 1987 Australian exports rose by almost 10 per cent, reflecting strong import demand in all major markets and a depressed Australian dollar. The increase in exports was rendered possible by higher production levels and lower consumption. In the current year, in spite of continuing strong import demand, exports by the year end should show a 4 per cent drop, to 874,000 tons. Although, as mentioned above, domestic consumption has continued to fall, production has also declined allowing only limited export availabilities. Furthermore, the current appreciation of the



small decline in total inspected slaughterings is expected although it is likely the female cattle kill will increase.

88. At 568.3 thousand tons, total beef and veal production in calendar year 1988 was 4.4 per cent up on that of 1987. This increase is primarily due to the substantially higher carcass weights recorded this year. There was a later kill this year due to plentiful feed supplies in the first six months and because of an expectation of higher prices and a lower exchange rate towards the end of the year. While there has been stronger import demand from New Zealand's major traditional markets, especially the United States, New Zealand farmers did not benefit as did Australian producers from the increase registered by the United States import prices. This was because of appreciation and strength of the New Zealand dollar against the United States dollar (during the first nine months of 1988 the New Zealand dollar was quoted on average at about 13 per cent higher than during the same period in 1987). By early November New Zealand had reached its limit of the "voluntary" restraint imposed by the United States for 1988 and this also impinged on New Zealand farmers' ability to benefit from stronger market prices as shipments from the end of September have been affected.

89. In line with slightly lower slaughterings and reduced carcass weights total bovine meat production in 1989 is expected to fall some 4 per cent to 543 thousand tons. Per capita domestic disappearance of beef and veal rose in 1987 to 39.7 kg./head and is expected to fall to 38.4 kg. per head in 1988 and to 38 kg./head in 1989. Sheepmeat and poultry meat are making up the difference. It is estimated that, during the calendar year 1988, beef and veal exports will total 430.8 thousand tons - a decline of 0.3 per cent on 1987. This was despite a 4.4 per cent increase in production this year. It is expected that significant volume of product will have its shipment delayed until late 1988/early 1989. Any "VRA" shortfall allocation by the United States in 1988 would result in further exports this year. Exports to the United States in 1988 are estimated to be up by about 7 per cent on 1987, while those to Canada are likely to increase by about 12 per cent. While production is expected to decline next year the product carried over from 1988 is expected to result in exports increasing in 1989 by about 1 per cent.



Policy issues

90. As indicated and as in Australia, New Zealand has "voluntarily" agreed to limit its export levels to the United States to 202,000 tons in 1988. This was the second consecutive year during which a "VRA" was imposed on New Zealand by the United States.

	1987	Estimates 1988	%Change 1988/87	Forecast 1989	%Change 1989/88
Cattle and calf numbers ^{1/} :	7,999.0	8,062.0	0.8	8,130.0	0.8
Beef and veal ^{2/} :					
Production	544.5	568.3	4.4	543.1	-4.4
Consumption	131.2	128.8	-1.8	128.0	-0.6
Exports	432.3	430.8	-0.3	435.2	1.0
	^{1/} ,000 head, 30 June			^{2/} ,000 tons, calendar year	

Japan

91. Japanese cattle numbers fell in 1987 for the second year in a row, to 4,667,000 head as at 1 February 1988. An analysis of data shows that while beef cattle numbers have continued to grow (even if only marginally in the last two years), dairy cattle numbers have been falling since 1985. Indeed, while Wagyu slaughterings have been falling since 1986, dairy cattle slaughterings have been rising. This seems to indicate that while the 1987 cut in the Stabilization Price for Wagyu steers, which was aimed at bringing wholesale prices in line with the Stabilization Price, had no impact on the beef cattle herd, the cuts in the Stabilization Price for dairy steers in 1986, 1987 and 1988, along with a cut in milk delivery quotas and the Government's programme to subsidize accelerated cow culling, are at the origin of the dairy herd liquidation. Overall cattle slaughterings fell by 3 per cent in 1987 and could fall by a further 2-3 per cent in the current year. In these conditions, cattle numbers may show an increase at the next cattle census in February 1989.

92. As a result of improved average carcass weights, beef and veal production rose by 1.1 per cent in 1987. Continued low feed costs and a strong yen allowed production to go on rising during the first quarter of 1988, but in the second quarter production stabilized and, in line with declining slaughter, it may well show a 2-3 per cent drop by the year end. An LIPC report published last February forecasts that production will rise again in 1989 as well as during the next few years. However, this report was published prior to the decision to gradually liberalize beef imports (see details below) which may well change forecasts for the medium and the longer term.

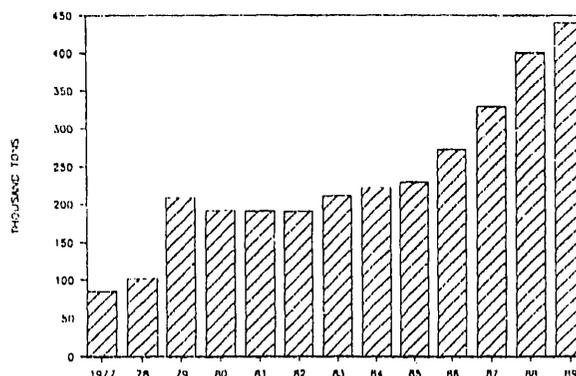
93. The evolution of per capita beef and veal consumption during the first half of 1988 (+0.2 kg.) reflects almost unchanged retail prices for beef, in spite of a 4 per cent drop in wholesale prices. Meanwhile, per capita consumption of pigmeat (2.5 times cheaper than beef) and poultry meat (3.5 times cheaper) also increased somewhat. In the face of the decision

to liberalize beef imports, there seems to be no doubt that beef prices will drop significantly, especially after the three-year transitional period. In these conditions, the official projections contained in the above-mentioned report (and indicated in the last secretariat report at 1.14-1.26 million tons in 1993) should be revised upwards.

94. During the first half of 1988, Japanese beef imports rose dramatically by some 62 per cent, to 231,000 tons, compared to year earlier. Imports of grass-fed beef from Australia were at 83,000 tons (product weight), 32,000 tons higher, while those of grain-fed beef from the United States at 63,000 tons went up by 25,000 tons. Respective market shares remained relatively unchanged. Imports from New Zealand rose by 1,000 tons, to 5,000 tons. Imports of live cattle fell by about 4,000 head. The fundamental reasons behind the continuing strong import demand in Japan have not changed since last year. Basically they consist of:

strong consumer demand resulting from higher incomes; a relatively stagnant or even declining production; and a sharply strengthened yen. In these conditions, the beef import quota for the 1988 Japanese fiscal year could only but be increased. Indeed it was, but these were not the sole reasons for the rise. The 1988 higher beef import quota (274,000 tons, product weight) was one of the access improvement measures introduced by the Government of Japan prior to the termination of the import allocation system which is due to occur on 1 April 1991.

JAPAN - BEEF AND VEAL IMPORTS



Policy issues

95. After lengthy discussions over the last few months with both the United States and Australia (and more recently New Zealand) which both requested the establishment of panels under Article XIII:2 of the General Agreement, Japan decided unilaterally last June to gradually liberalize beef imports. Key issues of the decision are the following¹: (1) on 1 April 1991, the import allocation system will be terminated. Consequently, the Livestock Industry Promotion Corporation (LIPC) will no longer be involved in the pricing, purchase or sales of imported beef; (2) there will be a transitional period of three years prior to the termination of the import allocation system (JFY 1988-JFY 1990). During this period, a number of access improvement measures will be implemented, the most important one being increasing import quotas (JFY 1988: 274,000 tons (product weight); JFY 1989: 334,000 tons and JFY 1990: 394,000 tons); (3) there will be a further period of three years after the allocation system is abolished. During this period, the Government of

¹For the full set of measures, see L/6370.

Japan will implement tariff rates in accordance with the following schedule: JFY 1991: 70 per cent; JFY 1992: 60 per cent and JFY 1993: 50 per cent. The normal tariff rate for and after JFY 1994 will not be raised above the tariff level for JFY 1993 and will be subject, at that level, to tariff negotiations in the Uruguay Round.

96. The impact of these measures on the Japanese meat sector will be far reaching. It seems evident that beef prices will decline markedly (in a recent analysis of the situation and outlook for the meat markets, the OECD Secretariat estimated that even with the application of a 70 per cent tariff on the 1987 import price for United States beef in yen terms, the imported meat would cost less than half the price of the Japanese product) and consumption will rise accordingly. Domestic beef production will also be affected as will, almost certainly, other meat sectors, by the changes in access to the beef market.

97. As mentioned before, the beef Stabilization Price for dairy steers (second grade) was reduced in fiscal year 1988 for the third consecutive year, by roughly 2.5 per cent to ¥1,295 (upper price).

	1987	Estimates 1988	%Change 1988/87	Forecast 1989	%Change 1989/88
Cattle and calf numbers ^{1/} :	4,694.0	4,667.0	-0.6	4,700.0 ^{4/}	0.7
Beef and veal ^{2/} :					
Production	565.0	552.0 ^{3/}	-2.3	565.0 ^{3/}	2.4
Consumption	884.0	928.0 ^{3/}	5.0	985.0 ^{3/}	6.1
Imports	329.0	400.0 ^{4/}	21.6	440.0 ^{4/}	10.0

^{1/},000 head, 1 February

^{2/},000 tons

^{3/} Source: OECD, based on the LIPC, Basic programme of modernization of the dairy and beef production (February 1988), and updated to take into account the recent governmental measures to open the market

^{4/} Secretariat estimate