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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), thereof. 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, as well as summaries of the situation and outlook for pigmeat, poultry meat and sheepmeat. In the preparation of this document, the following sources, *inter alia*, have been used: USDA reports; the *National Cattle Market Bulletin*, Cattle Council of Australia; *Australia Quarterly Review of the Rural Economy*; *Meat and Livestock Review*, Australian Meat and Livestock Corporation; *New Zealand Meat Board News*; *European Weekly Market Survey Commentary*, Meat and Livestock Commission, United Kingdom; *Informe Ganadero*, Buenos Aires; the *Drovers Journal*, United States; *Market Commentary*, Agriculture Canada, *Preços Agricolas*, Boletim Mensal, Brazil; *Agra Europe* and responses to the questionnaire submitted by 7 January 1993.

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 report, IMC/W/89, has been reproduced

CONTENTS

The International Markets for Bovine Meat

Recent developments and outlook

1. In 1993, while economic activity in the United States modestly improved, in Western Europe economic conditions continued to deteriorate and unemployment rates further increased. Although sustained economic growth continued in most Asian countries and in a number of other countries outside the OECD, economic activity remained weak in Japan. In the meantime, most of the Central and Eastern European countries and the Commonwealth of Independent States (CIS) in particular, continued to be in the midst of political, social and economic transition. These developments had a significant impact on the world meat markets, and on the beef sector in particular.

2. Last year, a number of policy developments lead to reduced market access opportunities for beef. However, the most significant changes, and probably those which bear the most encouraging potential for an improved situation of the international bovine meat markets in the near future, occurred in the European Community. The figures speak for themselves: cattle numbers decreased by 3 per cent, estimated beef and veal production by 5 per cent, exports by 3 per cent and, most importantly, stocks fell to 600 thousand tons, i.e., 45 per cent down from 1992. This evolution is partly cyclical, and also reflects the continued fall in dairy cow inventories (and the move from dairy to beef production) during the last few years. However, strong beef cow retention in 1992 was largely responsible for the significant production drop of 1993. This was related to the CAP reform[1], particularly during the second half of the year.

3. Projections in the European Community for 1994 are for a stagnation or slight increase of production and significantly lower export levels. Beef stocks are forecast to be reduced by a further 40 per cent to 360 thousand tons, the second lowest level in the last ten years. Such developments can be expected to result in firmer international beef prices, especially in the Foot-and-Mouth disease (FMD) area, and in increased export opportunities for other exporting countries, in particular in South America. In 1995, a further increase of EC beef output is forecast. There is, however, a margin of uncertainty not least because the impact of CAP reform is difficult to predict.

4. In April 1993, the European Community imposed a temporary ban on cattle, meat and dairy imports from a number of Central and Eastern European countries and some members of the CIS based on fears of a spread of FMD. This had followed an outbreak in Italy, apparently provoked by illegal imports of cattle from Croatia. The ban, now entirely lifted, led to retaliatory action from some of the countries concerned. Also, imports of meat from Brazil into the European Community and the United States were threatened for sanitary reasons.

5. Beef market access into North America was again restricted last year. The United States limited imports under the Meat Import Law and negotiating voluntary export restraint agreements (VERs) with Australia and New Zealand for the third consecutive year. As a consequence, Australia and New Zealand have increasingly diverted their exports to others markets, including North Asian markets Canada. During the first months of 1993, Canada imported more beef from Oceania than during the whole of 1992. Subsequently, Canada imposed a tariff rate quota on beef imports from countries other than the United States. The quota, implemented until the end of 1993, may be renewed in 1994 and 1995. Cattle and beef imports into Mexico were affected last year by the imposition of relatively import tariffs in the range of 20-25 per cent ad valorem up from duty free before.

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[1]See paragraph 20 page 8.

6. Another factor which played a significant role in market developments last year was exchange rate movements, with a number of major bovine meat exporters benefitting from depreciated currencies against the United States dollar and the Japanese Yen. For example, Australian export returns to Japan increased, while the Japanese importers had to pay lower beef prices. This development, in conjunction with the reduction of the import tariff and falling beef prices, largely explains why beef import demand was not particularly affected the recession in Japan.

Cattle numbers and beef production

7. The FAO estimates world total meat production in 1993 at about 184.2 million tons, of which 52.8 million tons were beef and veal (Table 1). About 34 million tons (64 per cent)

Table 1 - World Meat Production (Million tons)

			Estimates	% Change	
	1991	1992	1993	1991/92	1993/92
Pigmeat	71	72	74	1.4	2.9
Bovine meat	54	53	53	-1.4	-0.9
Poultry meat	41	43	44	3.6	3.8
Sheepmeat	10	10	10	-1.0	0.0
Others	4	4	4	0.0	0.0
Total	179	181	184	0.9	1.8

Source: FAO

of the bovine meat was produced in the countries participating in the Arrangement. In these countries, beef output contracted by around 1.4 per cent. World beef production also decreased, largely due to lower cattle inventories in the European Community and in most Central and Eastern European countries and the CIS. In the latter countries, producers reduced their herds as they faced higher production costs, often related to increasingly expensive imported feedstuffs and declining domestic demand. In this region, beef and veal output is likely to continue to decrease this year and perhaps next, but there is a potential for large productivity gains in the medium to longer term.

8. Slow cattle herd rebuilding continued in North America, resulting in stagnant beef output in the United States and lower production in Canada. Cattle herd growth has been sustained by strong returns in both countries, and this trend is expected to continue in the near future. In Canada, beef cattle numbers further increased in the West and dairy cattle inventories further decreased in the East continued. In South America, estimated beef and veal production increased in Brazil in line with higher cattle cull. It remained stagnant in Argentina, reflecting moderate herd rebuilding and also heavy cattle losses provoked by floods in the middle of 1993. In Uruguay, cattle inventories are peaking, approaching the end of herd rebuilding. Production, significantly reduced last year, is expected to expand as from 1994.

9. In Oceania, New Zealand cattle numbers continued to rise, reflecting continued higher profitability of the sector relative to sheep. In contrast, in Australia dry seasonal conditions in 1992/93 resulted in increased cattle loss and cattle slaughter, and depleted inventories. A recovery is expected

as from the current year. While beef output grew strongly in New Zealand, it dropped in Australia. Both trends are expected to continue in 1994, although at much lower pace.

10. Despite cattle declining prices, herd expansion continued in Japan. The expansion was entirely due to continued growth of beef cattle numbers, which fully offset a decline in dairy cattle inventories. Although beef imports surpassed beef output for the second consecutive year, the Japanese beef industry seems to be responding well to the new more competitive environment. Production continues to rise moderately, mainly reflecting higher productivity, due to increases in farm size, the number of beef cattle raised per farm and herd size in the fattening sector and an improved distribution and marketing system.

Consumption

11. Over the last fifteen years, beef and veal consumption in the major international beef markets has been characterized by a more or less marked declining trend. Simultaneously, consumption of other meats has increased, with pigmeat and especially poultrymeat accounting for an increased share of per capita meat consumption in most countries. Last year was no exception to this trend: while world beef and veal consumption is estimated to have fallen, consumption of pigmeat and poultrymeat was again on the rise. One of the few bright spots regarding beef and veal consumption continued to be Japan and some other Asian countries. Despite the economic recession, during the first nine months of 1993, beef and veal consumption in Japan soared, showing the strongest growth of the last few years. The rise, which may have slowed down in the last quarter, was apparently related to lower retail prices, in particular for cheaper quality beef. Increased imports, improved distribution systems, promotion campaigns and sales at discounted prices are among the reasons behind lower prices.

12. The reasons for the decline in beef and veal consumption in other regions of the world vary from country to country, but there are a number of well-known common factors, especially in industrialized countries. These include health concerns, ageing populations and stagnating household incomes. Moreover, to regain a higher share of total meat consumption, beef and veal would have to become more price competitive relative to other meats. Such a development seems to have been impeded by the greater cost efficiency in the production of other meats. In an anaemic economic environment, the quality and promotion campaigns in many industrialized countries may have slowed the decline in beef and veal consumption, but was not capable of reversing it. In the short run, Asian countries seem to be among the few places where there is scope for increases in beef and veal demand. Economic difficulties have resulted in sharply reduced demand for expensive beef and impeded beef demand to develop in Central and Eastern Europe and in most African countries

Trade and international prices

13. World beef trade shrank in 1993 by some 4 per cent, reflecting decreased exports of major exporting countries (Table 2), except for New Zealand and Canada. European Community exports decreased significantly during the first six months of the year, mainly due to reduced large-scale sales to the CIS. However, exports resumed in the second half of the year, resulting in the major discharge of intervention stocks referred to above.

Table 2 - Beef Exports of Selected Countries
('000 tons carcass weight equivalent)*

		Estimates	Forecast	% Change	
	1992	1993	1994	1993/92	1994/93
Argentina	296	277	260	-6.4	-6.1
Australia	1,195	1,102	1,087	-7.8	-1.4
Brazil	434	390	350	-10.1	-10.3
Canada	159	190	160	19.5	-15.8
EC	1,239	1,200	950	-3.1	-20.8
New Zealand	441	451	480	2.3	6.4
United States	601	590	635	-1.8	7.6
Uruguay	123	103	148	-16.3	43.7
Others	193	181	180	-6.2	-0.6
Total	*4,681*	*4,484*	*4,250*	*-4.2*	*-5.2*

* Includes fresh, chilled, frozen, cooked, canned and otherwise prepared bovine meat; excludes carcass weight equivalent of live cattle. "Others" includes other countries participating in the Arrangement Regarding Bovine Meat.

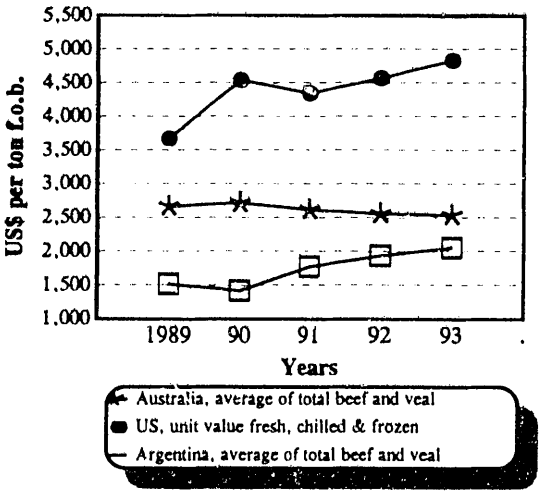
14. United States beef exports contracted in 1993, reflecting lower sales to Canada, Mexico and the Republic of Korea, and only a marginal gain in Japan. Except for a slight reduction in 1990, this was the first decrease in United States exports in recent years. US beef exports are expected to pick up again in 1994. As for Canada, since the implementation of the US/Canada Free Trade Agreement in 1989, beef exports to the United States are no longer subject to the US Meat Import Law, and have increased sharply. In 1993, beef export growth was further boosted by a depreciation of the Canadian dollar against the US dollar. Live cattle exports to the United States have also risen markedly. In 1994, Canadian exports of both beef and cattle are expected to level off.

15. Among major beef exporters, Australia experienced the strongest drop in export volume because of tight domestic supplies and the VERs imposed by the United States. However, firm export demand and a strong depreciation of the Australian dollar resulted in significantly higher returns. In 1994, beef export volumes are expected to drop further, although less markedly. In New Zealand, a rise in exports reflected strong output growth. Following the imposition of the VERs by the United States, export growth was the result of a strong increase in sales to Canada, as well as to the Republic of Korea and Chinese Taipei. New Zealand's beef exports are expected to expand further in 1994.

16. Argentinean beef exports were at their lowest level since 1986. The strength of the peso continued to adversely affect export performance. However, export values continued to rise in line with the increasing share of Hilton beef sales to the European Community and growing sales of fresh beef outside this quota. Brazilian beef exports are estimated to have fallen due to growing domestic demand and higher internal cattle prices. Brazil also experienced lower export prices. Furthermore, as in 1990/91, beef exports were once again threatened by import restrictions on fears of FMD in the

State of Sao Paulo, which accounts for about 80 per cent of the Brazilian beef production and export capacity. A long strike in the health and sanitary services in the second quarter of 1993, and concerns over possible use of forbidden hormone growth promotants, also affected Brazilian beef exports. Uruguay's beef exports also contracted reflecting reduced output and high domestic cattle prices. The latter was the main factor behind a sharp reduction in beef exports to Argentina, representing about half of the overall reduction.

Indicative World Market Beef export prices



17. Export prices for low quality beef (manufacturing grade) in the FMD-free area strengthened in 1993, reflecting higher than expected cattle prices in the United States, until VERs were imposed by the United States in Sptember. In response, Australia and New Zealand, as already noted, diverted trade to lower priced markets, mostly in Northern Asia, and returns for this quality of beef decreased. Prices for higher quality beef prices exported to Japan and Korea remained relatively firm. In the FMD area, manufacturing beef prices seem to have decreased in line with weak import demand. Prices of high quality ("Hilton") beef cuts are increasingly affected by the fact that an increasing number of countries is producing this type of meat. Increased EC Hilton beef quotas to South American countries, which were negotiated as part of the compensation for the EC's new support system for oilseeds, may add some downward pressure to prices.

The Bovine Meat Markets by Country

European Community

18. The 1993 developments in the European Community bovine meat market had a major effect, and will continue to have significant repercussions in the coming years on the international bovine meat markets. EC cattle numbers decreased for the second consecutive year, to an estimated 79 million head (December 1993). Although a greater decline (2.5 per cent) occured in 1992, the pattern of falling dairy cow inventories and rising beef cow numbers (Table 3) continued in 1993. The move from dairy production to beef production has followed the successive cuts of dairy quotas in previous years. In 1992, beef cow numbers grew by 8 per cent, following strong beef cow retention by farmers, in particular during the second half of the year. This development was related to the fact

Table 3 - EC Cattle numbers ('000 head)

	1991	1992	1993	1994
Dairy cows	24,120	22,765	21,730	21,000
Beef cows	9,265	9,400	10,120	10,750
Calves	25,485	24,150	23,250	23,000
Ohters	25,805	25120	24,270	24,250
Total	84,675	81,435	79,370	79,000

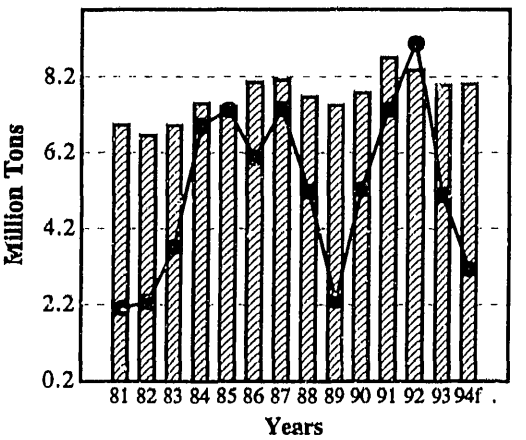
that most EC member states choose 1992 as the reference year for the calculation of the suckler cow premium[2].

19. In 1993, lower cattle numbers resulted in a further 6 per cent decrease in slaughter (10 per cent since 1991). Furthermore, heavy dairy cow cull in Germany, which was the main factor behind high slaughter levels in the EC, especially in 1991, has come to a halt. The slaughter of dairy cows has apparently been replaced by a shift of these animals to beef production. In line with decreased slaughter, beef and veal production decreased for the second consecutive year. Some of the production drop can be attributed to the cyclical nature of beef production. Record cattle numbers in 1991 allowed for record slaughter and consequently record beef output, falling inventories now result in lower production. However, a number of other, non-cyclical factors, contributed to last year's production decline.

20. The first of these factors was the increased beef cow retention in the second half of 1992, as explained above. In conjunction with this factor, massif intervention, in 1992, led to price stabilisation. In 1993, market prices began to recover, up to 82 per cent of the intervention price in the case of steers and calves, before the seasonal autumn decrease. This reinforced retention, which resulted in higher beef cow numbers through 1993. Other factors which contributed to lower beef output were the limitation, since 1991, of calf imports to 425 thousand head, and increased exports of slaughter cattle. These developments, and in particular the market price rise, resulted in a dramatic fall in intervention purchases: 148 thousand tons from January to September 1993, a 75 per cent fall compared to 1992. In September, the seasonal withdrawal of cattle from pasture led to an increased recourse to intervention, but purchases remained at modest levels when compared to 1992. Intervention purchases for the year as a whole remained well below the 750 thousand tons limit fixed by the CAP reform.

21. Improved market conditions and reduced intervention sales had not resulted in significant stock reductions by the middle of the year. As indicated in the June report, intervention purchases declined sharply, but sales decreased even more significantly. However, during the second half of 1993, beef exports resumed. This permitted a reduction in the level of stocks by the end of the year to 600 thousand tons well below the most optimistic projections. (In June 1993, the Commission itself had forecast year-end stocks at 1.1 million tons.) A further 40 per cent reduction of stock levels is expected for 1994.

Chart 1 - EC - Beef production and stocks



includes veal

22. The developments described above indicate that most of the improvement in the European Community market condition in 1993 was not related to the CAP reform, which entered into force on 1 June. The most obvious effect of the CAP reform in the beef sector so far appears to have been the strong beef herd retention provoked by the choice of 1992 as the reference year for the calculation of the suckler cow premium. As indicated, intervention purchases remained well below the limit allowed by the reform for 1993; market prices remained largely above the reduced intervention price (which, according to the reform for 1993, was

[2]Eligibility for the suckler cow premium is limited to producers who received the premium in 1992. The application of an individual ceiling to each producer, based on the number of premiums paid in 1992, essentially means that producers consequently had an interest in increasing the number of suckler cows in that year.

decreased by some 5 per cent); and the 380 kgs. carcass maximum weight imposed by the reform had little or no effect production levels last year.

23. Although more time will be required for an adequate evaluation of the effects of the reform in the beef sector, some of the reform aspects, such as those related to the new restrictions imposed on intervention, may already have had a certain dissuasive effect on some producers to continue expanding production irrespective of market signals. Such an effect should be more apparent through 1994 and 1995, as the reform progresses.

24. One paradox, however, is that the described developments regarding the suckler cow premium in 1992 and 1993, which had a positive impact on last year's market situation, may well lead to a deterioration of the situation in 1995 and 1996. According to a Commission report[3], during those years, a large number of cattle born in 1993/94 will be ready for slaughter, leading to increased beef production. However, the 11 million head quota limit imposed on suckler cow numbers across the Community for the premium is expected to play a market stabilisation rôle in the longer run. In addition, the limits imposed on intervention and the stocking density factor linked to the suckler cow premium and the beef special premium[4], are expected to contribute further to this stabilisation. Nonetheless production is expected to grow as from 1994 until at least 1997.

25. One major uncertainty regarding the market outlook in the Community is the evolution of consumption. As it has been noted in previous reports, beef and veal consumption has decreased slowly, but continuously. Data for 1993 suggest an increase which, taking into account last year's poor economic performance, lower consumers' private spending and increased cattle prices is surprising. Recent years' causes for the consumption decline or stagnation, i.e. large availabilities of lower priced competitive meats, changing diets and possibly also a relatively poor image of beef, do not seem to have changed. Indeed, decreased cereal prices in line with the CAP reform may result in a further decline in beef price competitivity against other meats in the next few years.

26. Imports occur mostly under concessionary import quotas[5]. In 1993, beef and veal imports increased for the third consecutive year to 485 thousand tons, a 22 per cent rise over 1990 import levels. During the same period of time, live cattle imports decreased by 42 per cent, reaching 720 thousand head last year. Poland has been the major traditional supplier of live cattle to the Community. Major suppliers of fresh and chilled beef have been Austria and Argentina, while imports of frozen beef come mostly from Brazil, Argentina, Uruguay and Botswana. Brazil also is the main supplier of canned and cooked beef, followed by Argentina and Hungary. As indicated, after a relatively weak performance from January to June 1993, beef exports are estimated to have surged during the second half of the year, totalling about 1.2 million tons. This allows the Community to be ranked as the first world exporter of bovine meat, ahead of Australia. Simultaneously, live cattle exports increased by a dramatic

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[3]"Rapport de la Commission sur les perspectives du marché de la viande bovine et le système d'intervention. Document COM(93) 601 final, Bruxelles, 24 novembre 1993."

[4]Special premium paid per male bovine animal, to be paid twice in its lifetime. The payment is applicable to small holdings and depends on stocking density. For more details, see "The International Markets for Meat, 1992/93".

[5]In 1993, the following concessionary beef import quotas were applied: 53 thousand tons frozen beef ("GATT quota"); 34.3 thousand tons high-quality beef ("Hilton quota"); 2,250 tons Australian buffalo meat; and zero tons "manufacturing beef balance quota". (In 1992 this latter provision resulted in an "autonomous high quality import quota" of 11,430 tons). The "ACP scheme" quota was fixed at 50,819 tons, and the "frozen thin skirt" quota at 1.5 thousand tons in 1993. Live animal quotas were unchanged with 198 thousand head "young male animals balance sheet"; 42.6 thousand head "specified mountain breeds" (1 July 1922 to 30 June 1993); and 5 thousand head "alpine cattle" for the same period. Under the Association Agreements concluded in 1992, Poland, Hungary and the Czech and Slovak Republics were granted the possibility of exporting beef to the EC until 1996, at a reduced levy, with quantities based on past performance. In 1993, the total number of live cattle which could be imported from these countries was fixed at 39,600 head, and the import quota for chilled beef and frozen beef at 4.4 thousand tons, 5.4 thousand tons and 3.25 thousand tons, to Poland, Hungary and the Czech and Slovak Republics respectively. If the Community finances "triangular operations" concerning these countries' sales to the former Soviet Union, the quantities involved will be deducted from the EC import quotas allocated to these countries.

50 per cent, which was not a negligible factor in the improved market situation in the Community. Live cattle exports traditionnally go to Libya and Egypt, followed by Turkey, Algeria and Morocco. The bulk of EC beef exports are frozen manufacturing quality meat, which go to the former Soviet Union and Egypt, followed at distance by Iran, Saudi Arabia and several other countries. In 1994, a relatively minor production growth and sharply reduced stocks are expected to result in a 21 per cent decline in exports.

EUROPEAN COMMUNITY			Estimates	Forecast	% Change	
	Unit	1992	1993	1994	1993/92	1994/93
Cattle numbers	'000 head*	81,435	79,370	79,000	-2.5	-0.5
Production	'000t	8,396	7,980	8,015	-5.0	0.4
Consumption	'000t	7,423	7,755	7,795	4.5	0.5
per capita	kgs	21.4	22.3	22.3	4.2	0.0
Imports	'000t	480	485	490	1.0	1.0
Exports	'000t	1,239	1,200	950	-3.1	-20.8
Stocks	'000t	1090	600	360	-45.0	-40.0

*December of the previous year

Finland

27. The 1 June 1993 cattle census showed total cattle numbers almost 2 per cent above levels in December 1992. Dairy cow numbers stabilized during that period, and the rise in total inventories was due to a significant rise in beef cow numbers (up by 14 per cent) and dairy heifers (up by 15 per cent). Although it seems premature to conclude that the ten year old cattle herd reduction (related to policies to reduce milk output) has come to an end, it can be noted that total cattle slaughter also fell by an estimated 7 per cent last year, and cow cull decreased by 5 per cent.

28. Reduced cattle slaughter and relatively stable carcass weights are estimated to have resulted in lower beef and veal output, a trend expected to continue through 1994. Beef producer prices have fallen by 7 per cent since 1990. This fall was not reflected in retail prices which show a 1 per cent rise during the same period. This may partly explain the declining trend in per capita consumption since that year. From January to September 1993, per capita beef consumption fell by 8 per cent and was 15 per cent below its 1990 level during the same period. However, in 1993, the decrease was accompanied by similar reductions in the consumption of other meats, showing no particular substition effect. Relatively stagnant per capita incomes, and perhaps diet concerns seem to the major reason behind falling or stagnant demand for meat.

29. Finland is a net exporter of small quantities of beef. During the first half of 1993, exports increased by 35 per cent, reaching 7 thousand tons. Fresh and chilled beef represented 68 per cent of the total and major export destinations were Sweden and Hungary. Sales of canned or cooked product accounted for some 20 per cent of the total and main markets were the European Community (Netherlands and Belgium in particular) and Saudi Arabia. Average export prices decresased by almost 5 per cent to US$1,400 per ton f.o.b. However, like most other exporting countries in 1993, the depreciation of the Finnish crown against the North American currency led to an average rise of export prices equivalent to 23 per cent when expressed in national currency terms.

FINLAND			Estimates	Forecast	% Change	
	Unit	1992	1993	1994	1993/92	1994/93
Cattle numbers	000 head	1,232	1,252	n.a.	1.7	n.a.
Production	000 t	117	108	103	(7.4)	(4.6)
Consumption	000 t	99	92	90	(7.1)	(2.2)
per capita	kgs.	19.7	18.6	18.2	(5.5)	(2.2)
Exports	000 t	15	16	13	4.6	(18.8)

Norway

30. A tightening of the milk quota system by mid-1992 resulted in a slight decrease in total cattle numbers last year. Dairy cow numbers were reduced by 6.6 thousand head, a drop only partly offset by a rise of 3.1 thousand head in the beef cattle herd. Estimates for 1993 suggest stagnation of the dairy herd and the continued expansion of beef cattle inventories. The total cattle herd is nevertheless expected to fall, as the result of lower calf numbers.

31. The policy objective for livestock production in Norway is to meet domestic demand, primarily through the use of domestic grown fodder. Production of livestock products is therefore closely adjusted to actual domestic consumption. Surpluses that occasionally arise are generally disposed of on the domestic market, but the recourse to foreign markets is not excluded. In that case, beef exports are financed by a producer-financed levy. Estimated beef and veal production in 1993 rose marginally (700 tons) and was accompanied by a larger growth of domestic consumption (1.3 thousand tons), which seemed to be due to some recovery of consumers' incomes.

32. Beef exports doubled from 3 to 6 thousand tons in 1992. The bulk of Norwegian exports consisted of frozen beef (4.4 thousand tons valued at US$6 million). For the third consecutive year, Mexico was the major destination. Sweden, Denmark and the United States were other destinations. This year's lower production surplus is estimated to have resulted in a 32 per cent drop in beef exports. Beef and veal consumption are expected to decline next year. With continued production growth, export availabilities are forecast to rise again to about 6 thousand tons.

NORWAY			Estimates	Forecast	% Change	
	Unit	1992	1993	1994	1993/92	1994/93
Cattle numbers	'000 head	1,012.6	1,010.2	1,003.2	-0.2	-0.7
Production	'000 t	83.5	84.2	84.9	0.8	0.8
Consumption	'000 t	78.8	80.1	79.1	1.6	-1.2
per capita	kgs	18.4	18.6	18.2	1.1	-2.2
Exports	'000 t	5.9	4.0	6.0	-32.2	50.0

Sweden

33. In 1993, the Swedish bovine meat sector continued its adaptation to the agricultural policy introduced in 1991. Dairy cattle inventories decreased again, a trend also supported by the adjustment measures in the dairy sector. In the meantime, the reform measures which provide for the conversion of agricultural land to other uses, including extensive cattle raising in remote areas, continued to encourage the retention of breeding animals and the expansion of beef cow numbers (Table 4). However, in 1994 this trend is expected to be reversed. Cattle slaughter increased by 24 per cent during the first half of the year, apparently provoked by falling cattle prices. However, higher beef cow and calf numbers allowed the six year old herd expansion to continue in 1993. A further growth is expected in 1994.

Table 4 - Sweden - Cattle Numbers ('000 head)

Year	1988	1990	1992	1993	1994
Dairy	565	555	527	524	525
Beef	56	74	136	156	150
Total cattle	1,662	1,695	1,776	1,806	1,810

34. Estimated beef and veal production increased by almost 5 per cent in 1993. Along with stable carcass weights, such a rise suggests a slow decrease in cattle cull during the second half of the year. Real average price received by producers (as deflated by the consumer price index) fell by 11 per cent during the first half of the year. This fall was entirely reflected in beef wholesale prices. Although retail prices are not available (the survey which used to cover a basket of beef products in the retail trade, was abandoned in 1989) it could be expected that they were also reduced. However, beef consumption during that period remained unchanged and is even estimated to have fallen, for the year as a whole, from 17.1 kgs per capita in 1992, to 16.5 kgs. in 1993. The stagnation in beef consumption is expected to continue in 1994. In the meantime, the consumption of pigmeat and poultry meat were up, a trend expected to continue in 1994.

35. In 1993, beef and veal exports are estimated to have pursued their declining trend in line with the phasing-out of export subsidies. However, during the first six months of the year, beef exports were encouraged by the decreased value of the Swedish Crown against the US dollar. They increased by 1 thousand tons, to 6.2 thousand tons. Of this amount 61 per cent was frozen beef, which went primarily to the United States and Mexico, and 39 per cent was processed beef which went mostly to Germany. The average export price for this period was US$2,120 per ton f.o.b., up by 22 per cent compared to 1992. Exports are expected to stabilize in 1994.

SWEDEN			Estimates	Forecast	% Change	
	Unit	1992	1993	1994	1993/92	1994/93
Cattle numbers	'000 head	1,776	1,806	1,810	1.6	0.2
Production	'000 t	130	136	136	4.6	0.0
Consumption	000 t	148	144	144	-2.7	0.0
per capita	kgs	17.1	16.5	16.5	-3.5	0.0
Exports	'000 t	10	9	9	-10.0	0.0

Bulgaria

36. The overall economic difficulties experienced by Bulgaria and the sharp increase in retail prices since the spring of 1991 (meat retail prices rose by more than 800 per cent) continued to have an adverse impact on the agricultural sector in general and on cattle breeding and meat production in particular. Cattle and calf numbers have continued to fall since 1991, and the situation in other meat sectors was even worse.

Table 5 - Bulgaria - January-September meat production

	Beef	Pork	Sheep	Poultry	Total
1992	39	102	0.8	34	175
1993	15	47	0.4	20	83
%C	-60	-54	-50	-40	-53

37. This situation led to a dramatic fall in meat production. During the first three-quarters of 1993, overall meat output fell by 53 per cent, totalling only 83 thousand tons. This was 80 per cent less than the 419 thousand tons produced during the same period of 1988. The drop in beef and veal production from January to September 1993 was even more significant, reaching 60 per cent (Table 5). Reduced meat output coupled with sharp price increases and the decline in the purchasing power of the population, is believed to have resulted in a major drop in meat consumption levels.

38. Export cuts and significant import rises in beef and veal are another indication of the serious difficulties which the Bulgarian meat sector has faced since 1991. During the first nine months of the year, exports fell from close to 6 thousand tons in 1992, to a mere 1.1 thousand tons last year. Conversely, beef and veal imports shot up from 300 tons to 12 thousand tons. Live cattle exports, which had increased sharply in 1992, were reduced by half. This reflected a serious cut in sales to Bulgaria's main export destination, Lebanon, as well as to other markets such as Lybia and the former Yugoslavia. The Commonwealth of the Independent States, Greece, Jordan and Germany are among the countries receiving of Bulgaria beef and veal. The major suppliers of imported beef were France, Latvia, Switzerland and Germany.

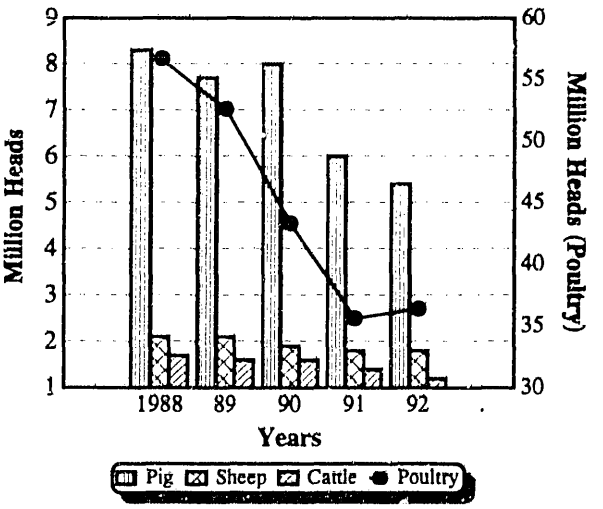
Hungary*

39. As noted in previous reports, the decline in livestock numbers in recent years has been a good illustration of the difficulties with which the meat sector has been confronted in Hungary. In a country where meat output accounts for about 20 per cent of total food production, pig numbers fell from 8 million head in 1990 to 5.4 million last year. Cattle inventories dropped from 1.6 million to

1.2 million during the same period, the lowest level in at least the last thirty years. Similarly, sheep and poultry inventories were also dramatically reduced. In consequence, meat production declined sharply (Chart 2).

40. Economic and agricultural policy reforms aiming at an increased liberalization and privatization of the sector are the main causes underlying such evolution. Large scale slaughterhouses are integrated vertically, including breeding, slaughtering, freezing, processing, warehousing and product marketing. They often operate at 50 per cent of their capacity[6]. These factors complicate privatization and so far only three out of 19 state-owned slaughterhouses have been privatized, despite an initial target of complete privatization by the end of 1992. However, these difficulties were not an obstacle to the multiplication of smaller private slaughterhouses and processing companies, which are more economically viable because of lower operating costs.

Chart 2 - HUNGARY - Livestock numbers



41. On 1 March 1993, a law for the regulation of agricultural markets entered into force. Implementation of the law in the different commodity areas will be organized by the Ministery of Agriculture in co-operation with other ministeries and the Commodity Councils, in this case the Livestock and Meat Produce Council. The law is divided in two parts, with direct market controls on products considered to be essential (bread wheat, feed maize and milk). Meat products, beef, pigmeat and poultrymeat currently belong in the second, "non-essential" category, but will be included in the first group as from January 1994.

42. Meat demand has decreased sharply in Hungary over the past few years (Table 6). Beef per capita consumption is estimated at 5.5 kgs. in 1992, roughly half its level at the end of the 1970s. Underlying this development are the erosion in consumers' purchasing power and high levels of unemployment.

Table 6 - HUNGARY - Meat Consumption (Kgs.)

	1983	1990	1991p	1992p
Pigmeat	41.5	38.8	33.0	29.0
Beef & veal	7.7	6.5	6.0	5.5
Poultry meat	21.4	22.8	22	29
Sheep meat	0.4	0.4	0.4	0.5

p) Preliminary data

43. The collapse of Comecon resulted in sharply reduced Hungarian beef exports to Eastern European markets. The former Soviet Union was Hungary's largest market for meat in general and for live cattle and beef in particular. Yugoslavia was another important destination. Reportedly, only Croatia and Slovenia are in a position to purchase some Hungarian meat, and Russia remains the largest potential market for meat. However, Hungary faces strong competition from the European Community in this market. The idea of Hungarian exports to Russia financed by the European Community does not seem to have been acted on. Risky barter deal operations are seen as the only way to export to Russia. The importance of the EC market has consequently grown as an alternative outlet. The Association Agreement provides, until 1996, the

[6] Laszlo Ranky, Meat Markets from Eastern Europe, Paper delivered at the Ninth World Meat Congress, Sydney, April 1993.

opportunity of exporting beef to the European Community at a reduced levy, with quantities based on past performance. Under the terms of the Agreement, salami, dry sausages and pork cuts also benefit from reduced levies. However, Hungarian cattle, meat and dairy exports to the European Community were adversely affected by the import ban imposed in April 1993 by the European Community on grounds of Foot-and-Mouth (FMD) disease. The ban, which also applied to other Central and Eastern European Countries and part of the former Soviet Union, provoked immediate reciprocal action by some of these countries. The ban applied to Hungary has now been lifted.

HUNGARY			Estimates	Forecast	% Change	
	Unit	1992	1993	1994	1993/92	1994/93
Cattle numbers	'000 head	1,159	n.a.	n.a.	n.a.	n.a.
Production	'000 t	125.3	n.a.	n.a.	n.a.	n.a.
Consumption	'000 t	62	n.a.	n.a.	n.a.	n.a.
per capita	kgs	6.2	n.a.	n.a.	n.a.	n.a.
Exports	'000 t	37.9	13.1*	n.a.	n.a.	n.a.
Imports	'000 t	11.8	5.3*	n.a.	n.a.	n.a.

* January-June 1993

Poland*

44. Cattle numbers in Poland were substantially reduced in recent years both in the private and public sector. This trend is expected to continue in the near future, but at a slower pace (down 1.4 per cent this year against 14 per cent in 1992). However, grain shortages due to the 1992 summer drought are seriously affecting the livestock sector. The pigmeat sector is particularly hit by sharply increased grain prices and falling pig prices, squeezing profit margins.

45. While domestic demand for pigmeat consistently increased in the last few years, demand for beef, milk and dairy products declined. Wholesale milk prices decreased accordingly, leading producers to reduce cow inventories which resulted in increased beef supplies. Bovine meat prices levelled off and profitability shrank. This trend may have begun to change last year: total cattle slaughter decreased by 14 per cent, and cow and heifer cull by 9 per cent. Lower cattle slaughter reflects a reduced herd, but may also be partly the result of the 2-3 per cent increase in producer prices (in real terms). In line with lower cattle slaughter, beef production fell by 15 per cent last year. Per capita consumption continued its downward trend to an estimated 14.5 kgs., from 17 kgs. in 1991.

46. Live cattle exports apparently decreased from a record 723 thousand head in 1990 to only 102 thousand head in 1991. Lower cattle exports seem primarily due to the declining cattle herd, and reflect reduced sales to all major markets, and in particular to the European Community. Likewise, beef and veal exports (fresh and chilled) are estimated to have dropped by 55 per cent in 1991, to 20 thousand tons, product weight. Poland was nevertheless able to double its beef sales to the Republics of the former Soviet Union from 5 thousand tons, product weight, to 10 thousand tons. In 1992, exports of slaughter cattle are estimated to have fallen again, but beef export estimates continue to be unavailable.

47. In 1989, the market situation in Poland forced the importation of a record 108 thousand tons of beef, product weight. In 1991, purchases abroad totalled some 23 thousand tons, up from 2 thousand tons imported in 1990.

POLAND				Estimates	% Change	
	Unit	1991	1992	1993	1992/91	1993/92
Cattle and calf numbers[a]	'000 head	8,844	7,603	7.500	-14.0	-1.4
Beef and veal[b]:						
Production	'000 t	636	540	480	-15.1	-11.1
Consumption	'000 t	645	560	520	-13.2	-7.1
per capital	kgs					
Imports	'000 t	23.3	n.a.	n.a.	n.a.	n.a.
Exports	'000 t	19.6	n.a.	n.a.	n.a.	n.a.

[a] '000 head, 1 January [b] '000 tons

Romania*

48. The dramatic decline in Romanian cattle inventories in the last five years reflects the difficult situation facing the livestock sector in Romania. Cattle and calf numbers fell sharply to an estimated 3.7 million head in 1992, almost half their level five years earlier. The decline was related to erratic feed supplies, which led to high cattle slaughtering, and to the dissolution of co-operative farms and other problems associated with the privatization process. Despite higher cattle slaughter, beef and veal production fell (except in 1990, when increased imports of animal fodder allowed a brief recovery in slaughter weights). In spite of reports of improving efficiency last year, beef and veal output are estimated to have fallen again by 24 per cent. The return of land to its former owners in accordance with the privatization law is reported to have already resulted in the emergence of one million more landowners. Privatization is apparently resulting in the fragmentation of farms into economically non viable units, or farms which, because the owners are elsewhere employed, are left uncultivated.

49. Increased output in 1990 resulted in a striking 78 per cent growth in per capita consumption, to 12.8 kgs., supported by state controlled prices until the third quarter of the year. An estimated 12 per cent drop of consumption in 1991 reflected the price liberalization, an acceleration of inflation and growing unemployment. While pigmeat intake registered a smaller 5 per cent drop (to 25.4 kgs.), that of poultrymeat declined by 20 per cent. Data for 1992 is not available, but the substantial decline in production and a 35 per cent rise in real beef retail prices suggest a sharp reduction in consumption last year.

50. Since February 1991, livestock, meat and meat products have been affected by export quotas aimed at limiting domestic shortages. Such measures, coupled with declining consumption, have reduced import levels since 1991. In 1991, beef exports were limited to 6 thousand tons, and last year, to 11 thousand tons. The structure of beef exports has also changed. In 1991, fresh and chilled exports,

mostly to former Yugoslavia, represented 63 per cent of total exports. Last year, they represented only 9 per cent, with canned and cooked beef amounting to 49 per cent of the total. The main destination was Germany. Frozen beef sales grew to 4.5 thousand tons and the major export market was Russia. Total live cattle and beef export returns amounted to US$51 million last year, compared to US$48.1 million in 1991.

ROMANIA				Estimates	% Change	
	Unit	1990	1991	1992	1991/90	1992/91
Cattle and calf numbers[a]	'000 head	5,381	4,355	3,683	-19.1	-15.4
Beef and veal[b]:						
Production	'000 t	287	219	121	-23.7	-44.7
Consumption	'000 t	296	257	n.a.	-13.2	n.a..
per capital	kgs					
Imports	'000 t	58	11	11	-81.0	0.0
Exports	'000 t	0	6	11	6,100.0	72.6

[a] '000 head, 31 December [b] '000 tons

South Africa

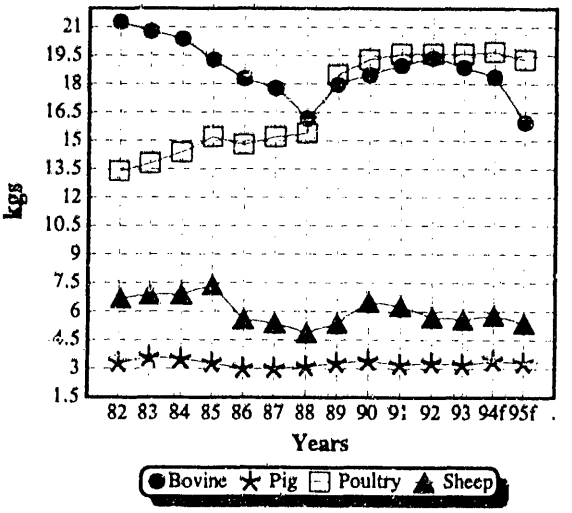
51. After two years of cyclical reduction, aggravated by serious drought, the South African cattle herd began to recover as a result of improved weather conditions. Increased cattle numbers reflect a strong drop in adult male cattle and calf slaughter (18 per cent and 6 per cent, respectively), but hide a 16 per cent rise in cow cull. The participation of cow kill in the total slaughter increased consequently to 53 per cent. In recent years this percentage has averaged around 38 per cent, and 53 per cent appears to be a much too high percentage for a herd rebuilding phase. Although female cattle slaughter is expected to be reduced within the next two years, its percentage in the total cull is expected to stabilise at 53 per cent. The next peak in cattle herd numbers is nevertheless expected to occur by 1997.

52. Despite the floods, available reserves of feed grains and an increasing number of feedlot operations (presently about 60 per cent of the slaughtered stock is marketed through feed-lot operations) allowed cattle slaughter weights to increase by an estimated 6 per cent on average in 1992. In 1993, 3 per cent lower average slaughter weights reflected the increased participation of female cattle in the total slaughter mix. Added to reduced cattle cull, the result was a 3 per cent beef production fall. Production is expected to decline further in the next two years. Estimated average producer prices (average for all grades and all markets), which showed little improvement in 1992 due to high cattle slaughter, increased by 3 per cent in 1993. The rise was related to decreased cattle cull, but probably also to the deregulation of the meat sector[7].

[7]The last deregulation move, on 22 January 1993, lifted all remaining restrictions regarding the movement and method of sale of slaughter animals, meat, offal, hides and skins in the controlled areas, as well as control over the sale and slaughter of animals in the controlled areas. Producers can now choose which abattoir to use. The state-owned Abattoir Corporation (Abacor), which operates slaughterhouses throughout the country and accounts for 40 per cent of slaughtering, will be privatized, with wide share distribution recommended. In the future, the

53. After several years of slow but continued growth, beef and veal consumption decreased in 1993. The fall seems primarily due to lower production levels and increased retail prices (1.5 per cent during the first six months of the year). It also reflects lower per capita demand for all types of meat, apparently related to reduced disposable incomes. In recent years, poultry meat has slowly replaced beef as the most demanded meat. Last year, poultry meat demand appears to have been the least affected by lower disposable incomes. While pigmeat and sheepmeat per capita consumption paralleled beef in the decline, poultry meat consumption showed a negligible fall in per capita terms and increased globally.

Chart 3 - SOUTH AFRICA - Per capita consumption of meat



54. South Africa is a net meat, and in particular beef, importing country, occasionally exporting limited beef quantities (which are controlled by the Meat Board under the Marketing Act). During the last few years, some 80 per cent of the imports were frozen beef of manufacturing quality, originating mostly in the European Community. In 1993, imports grew by a significant 15 thousand tons, in line with the production drop. Although beef imports are expected to rise somewhat in the next two years, it is believed that there will be a move towards animal production and away from field crops over the medium to long term. The natural outcome would be a declining dependence on imports. Estimated live cattle imports increased from 152 thousand head in 1992, to 173 thousand head in 1993. Most of the imported cattle come from the common customs area because imports from other sources have been discouraged by a 60 per cent import surcharge. It is expected that cattle imports will rise somewhat in 1994, to decrease afterwards.

SOUTH AFRICA			Estimates	Forecast	% Change	
	Unit	1992	1993	1994	1993/92	1994/93
Cattle numbers	'000 head (1 January)	8,400	8,593	8,898	2.3	3.5
Production	'000 t	747	721	679	-3.4	-5.9
Consumption	000 t	751	745	741	-0.8	-0.5
per capita	kgs	19.4	18.8	18.4	-3.1	-2.1
Imports	'000 t	22	37	39	63.7	5.5

Meat Board will only be responsible for the classification of meat, grading of hides and skins at certain abattoirs and, when requested, the maintenance of an auction system. It will continue to operate a floor price scheme by determining a floor price and purchasing meat at that level. Abattoirs are free to apply the scheme.

Tunisia *

55. In Tunisia, 80 per cent of the cattle is raised in the north of the country where pasture conditions are relatively favourable. Between 1988 and 1990, cattle numbers fell by 12 thousand head due to two years of drought. The cattle herd started building up again in 1991 to reach 732 thousand head last year.

56. While earlier estimates suggested a modest production growth, revised data shows that in 1991 production increased sharply to 40.9 thousand tons (up 20.6 per cent). Although not meeting the target of full self-sufficiency in meat of the Seventh Plan (1987-91), the self-sufficiency ratio for bovine meat increased from 66.3 per cent in 1986 to 75 per cent. The Eighth Plan (1992-1996) re-iterates the objective to reach self-sufficiency in the sector. Last year, production grew by an estimated 27 per cent to 52 thousand tons.

57. Domestic production of beef by and large stagnated in Tunisia between 1987 and 1990. State-controlled retail prices have been kept unchanged since 1989, but in the context of difficult general economic conditions per capita beef consumption has slightly decreased since 1987. In September 1990, wholesale and retail prices of domestically produced beef were liberalized, and on 24 July 1991 the state-controlled retail prices for imported beef were increased. Moreover, the Eighth Plan eliminated the consumer subsidy for beef. In response, bovine meat consumption is expected to remain stagnant in the short to medium term.

58. In 1991, beef and veal imports into Tunisia grew marginally from their 1990 (and 1984) record level of 15 thousand tons. Live cattle imports, estimated at 6 thousand head, remained close to the 1990 historical trough. Tunisia appears to be in a process of changing its import policy from live cattle to beef. The major beef supplier has traditionally been France. Poland has been a major live cattle supplier to the Tunisian market. Bulgaria, France and Germany have been other important live cattle suppliers in the recent past. Imports are estimated to have decreased last year, reflecting increased domestic production. A further drop of live cattle imports was expected in 1993.

59. In 1992, Tunisia introduced the Eighth Plan which, like the previous one, sets self-sufficiency in the bovine meat sector as a target. Self-sufficiency is now to be reached in 1996.

60. The Eighth Plan introduced new technical support measures to encourage cattle-feeding operations and the valorization of slaughter cows. Furthermore, the Plan includes measures to improve food resources, in particular the extension of areas sown instead of left fallow, the introduction of high-yield varieties and the improvement of forest and non-forest common grazing land.

61. Among the major economic measures introduced by the Eighth Plan are the confirmation of the producer and consumer price liberalization measures introduced in September 1990; the elimination of the consumer price subsidy for bovine meat; and the creation of service companies with the aim of reducing production and marketing costs for cattle-farming products. With respect to the new legislative and fiscal measures, the beef sector is directly affected by the revision of the customs regime for imports of bovine meat and the unification of slaughter fees.

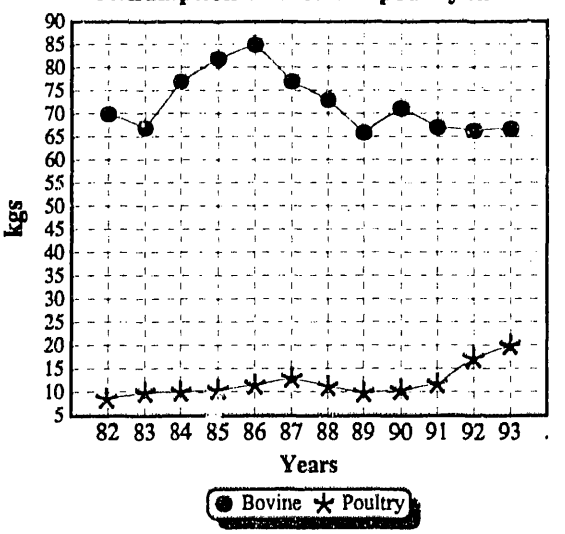
TUNISIA				Estimates	% Change	
	Unit	1991	1992	1993	1992/91	1993/92
Cattle and calf numbers	'000 head	686	732	n.a.	5.2	n.a.
Production	'000 t	47	52	45	26.8	-13.5
Consumption	'000 t	51	51	45	0.0	-11.8
per capita	kgs					
Exports	'000 t	14	8	6	-42.9	-25.0

Argentina

62. The implementation of the April 1991 "Convertibility Law" led to the stabilization of internal prices, sharply reduced inflation, lower interest rates and improved cattle prices. As a result, cattle herd reduction came to a halt and a rebuilding phase, although timid, seems to be on its way for the last two to three years. Underlying these developments, cattle slaughter data showed a downward trend since the implementation of the "Convertibility Law". This trend was reinforced since July 1992, when a new value added tax system was introduced. However, cattle prices began to decline in October 1992, encouraging increased cattle slaughter in 1993 (nevertheless below the 1990-91 levels). Dramatic flooding in April-June 1993, especially in the province of Buenos-Aires (which represents about 45 per cent of Argentina's total cattle raising and cattle slaughtering activities), is believed to have resulted in heavy cattle losses which, added to increased slaughter, will probably result in lower cattle numbers.

63. At least three main reasons have been advanced to explain the fall in cattle prices: (i) the change in the tax system limited the tax-evasion possibilities and a number of plants prescured for lower prices and/or enlarged terms of payment; (ii) after a surge following the implementation of the "Convertibility Law", beef consumption fell again, with consumers moving to poultry meat and pigmeat. Added to falling exports, beef supply exceeded demand, exerting a downward pressure in prices; (iii) a new beef marketing system was a major cause for the price drop as the part of the producer price in the final consumer price dropped by 5 per cent in less than seven months. Furthermore, payment delays to producers seem to have been extended. In the last few months, declining prices led a number of important exporting plants to suspend their activity.

Chart 4 - ARGENTINA - Per capita consumption of beef and poultry meat



64. Beef production, which fell by almost 5 per cent in 1992, is estimated not to have recovered in 1993 partly because of the heavy cattle losses provoked by the floods. After a surge in the first

months of the year, per capita beef consumption decreased subsequently and, for the year as a whole, stagnated at levels close to the historical 1989 trough of 66 kgs., despite lower retail prices. In recent years, beef, once called the "Argentinean bread", has been faced with stiff competition from poultry meat. Once a marginal source of animal proteins in the Argentineans' diet (with prices varying in parallel to those of beef), poultry meat is emerging as a serious alternative to bovine meat. Since 1991, strongly increased poultry slaughter and higher imports (mostly from Brazil), resulted in substantial retail price drops which, together with new dietary concerns, are leading an increasing number of consumers to turn to poultry meat.

65. Following a 29 per cent drop in 1992, beef and veal exports are estimated to have decreased by a further 7 per cent in 1993, reaching 277 thousand tons, the lowest level since 1986. Despite lower domestic cattle prices than in 1992, the strength of the peso seems to have continued affecting export performance. However, despite lower volumes, export values continued to rise. The rise does not necessarily reflect higher international prices, but the increasing share of Hilton beef sales to the European Community (19 per cent of total Argentinean exports in volume, and 36 per cent in value for the first nine months of 1993) (Table 7). In 1993, Hilton beef prices

Table 7 - Argentina - Beef exports (9 months)

1991		1992		1993	
Q	U.V.	Q	U.V.	Q	U.V.
315	1,724	233	1,860	209	1,996

Q (Quantity) = '000t U.V (Unit Value) = U.S.$/t, f.o.b.varied between US$9,000-10,500.

As compensation for damages caused by the European Community's new support system for oilseeds, Argentina benefitted from an additional 11 thousand tons of beef under its Hilton quota. Chile continued to be the second major export destination for Argentinean high quality beef. The trend for lower exports of canned and cooked beef registered in recent years continued in 1993. From January to September, canned and cooked sales (mostly to the United States and the European Community) decreased by 15 per cent. The declining demand for this type of beef is gradually leading to an increase of exports of fresh beef outside the Hilton quota. Reduced cattle numbers in 1993 are expected to result in lower beef production and reduced exports in 1994.

ARGENTINA			Estimates	Forecast*	% Change	
	Unit	1992	1993	1994	1993/92	1994/93
Cattle numbers	'000 head (30 June)	53,011	53,300	52,767	0.5	-1
Production	'000 t	2,486	2,485	2,400	-0.0	-3.4
Consumption	'000 t	2,190	2,217	2,210	1.2	-0.3
per capita	kgs	66.4	66.6	66.4	0.3	-0.3
Exports	'000 t	296	277	260	-6.4	-6.1

* Secretariat forecast

Brazil*

66. According to the new statistical basis (see GATT - The International Markets for Meat, 1992/93) cattle and calf numbers increased by an estimated 2 per cent in 1992, reaching 147 million head. The new statistical approach, which led to an upward revision of the Brazilian cattle herd in absolute terms, was applied to revise cattle numbers in previous years. Despite higher cattle slaughter, herd reduction (according to earlier estimates expected to have started since early 1991) does not appear to have materialised so far, and cattle numbers are expected to continue rising at least until 1994. Cattle slaughter was estimated up 3.3 per cent as a result of higher kill of all types of cattle, but unofficial sources indicate that beef production decreased by 4.5 per cent, presumably reflecting lower average slaughter weights. Cattle cull and beef production are estimated to have increased last year. A further growth is expected for 1994.

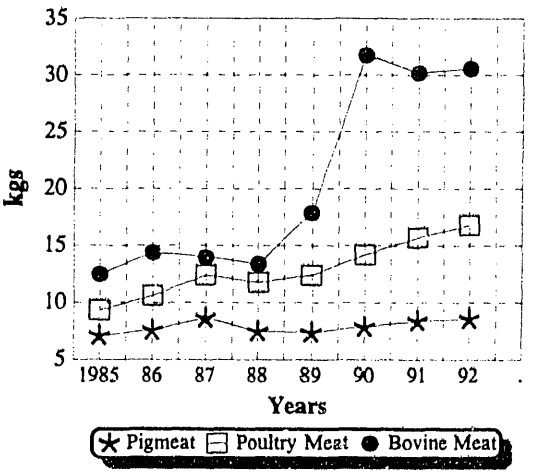
67. In 1992, the Brazilian livestock industry was affected by a serious economic recession, including high unemployment, sharply increased inflation, and shrinking consumer disposable incomes. Cattle prices are estimated to have decreased by 6 per cent (average price of a bovine carcass in the state of Sao Paulo), despite the seasonal price rise during the off-season (July-September). Although the economic fundamentals do not seem to have significantly improved, cattle prices have been relatively stable last year, supported by some recovery of domestic demand. However, uncertainty about the future course of economic policies may affect producers' confidence and lead them, as on earlier occasions, to retain their cattle while waiting for a clearer picture. Slowing cattle marketings and rising cattle prices seem to confirm this view.

68. In 1992, lower disposable household incomes resulted in significantly reduced per capita consumption of beef (down 9 per cent). In contrast, poultrymeat demand is estimated to have continuously increased by an annual 1 to 1.5 kgs. per capita in recent years, reaching an estimated 17.2 kgs. in 1992, or 84 per cent above the 1985 level. However, poultrymeat consumption continues to fall substantially short of beef and veal consumption, estimated at 28.7 kgs. per capita in 1992 (Chart 5).

69. Last year, Brazilian beef exports were once again threatened by import restrictions abroad on grounds of FMD in the State of Sao Paulo. This State represents about 80 per cent of the Brazilian beef production capacity. A special fund (FUNDEPEC), based on the financial participation of producers by way of a tax per animal sold, was established to fight the disease.

70. With the sanitary problems which had affected trade with the United States in 1990/91 and threatened exports to the European Community settled, Brazilian beef exports, supported by a favourable exchange rate and by sluggish domestic demand, amounted to 434 thousand tons in 1992. This was 33 per cent above the 1991 beef export volume. In value terms, beef exports reached US$619 million, which compares with US$398 million in 1991. Processed meat accounted for 54 per cent of exports, and was mainly shipped to the EC, the United States and the Middle East. The average export value was US$2,682 per ton f.o.b.

Chart 5 - BRAZIL - Per capita consumption of meat



71. From January to April 1993, beef exports declined by 6 per cent in value reflecting both lower export quantities and lower export prices. Beef exports continue to be threatened by renewed concerns of Brazil's major clients (the United States and the European Community) over sanitary issues. Difficulties with the control of residues in meat during the first few months of the year, aggravated by strikes affecting the health and sanitary services in Brazil, threatened exports to the United States. In the meantime, the difficulties of the Brazilian authorities to control the illegal use of hormones in their territory is a rising concern in the European Community, while the FMD situation in the country, despite progress in the eradication of the disease in some Federated Sates, continues to be a major threat for the export industry.

72. Beef imports fell by 74 per cent in 1992, in line with domestic demand trends. However, beef stocks remained unusually high. Despite several efforts for its disposal on the domestic market, 80 per cent of the beef imported from the EC in one operation in 1991 have remained unsold.

BRAZIL				Estimates	% Change	
	Unit	1991	1992	1993	1992/91	1993/92
Cattle and calf numbers	'000 head (1 January)	144,104	147,078	150,000	2.0	2.0
Production	'000 t	4,725	4,508	4,897	-4.6	8.6
Consumption	'000 t	4,579	4,120	4,560	-10.0	10.7
per capital	kgs					
Exports	'000 t	326	434	386	33.1	-11.1

Colombia

73. Colombian cattle numbers have expanded over the last seven years, reaching 25 million head in 1993. With an expansion in numbers of all the categories of cattle, the estimated overall 3 per cent growth registered last year does not show any slow down of herd rebuilding. Cattle inventories are expected to rise further in 1994. During the first half of 1993, cow and heifer slaughter decreased by 18 per cent, while adult male cattle slaughter went up by almost 3 per cent, resulting in an overall slaughter drop of 6 per cent.

74. Beef production, which represents about 21 per cent of overall agricultural output, decreased in 1993. From January to June, the production drop reflected the decline in cattle slaughter, and fell by a similar percentage (6 per cent). However, forecasts indicate production growth in 1994 and 1995. The expectations for increased output are linked with the new national system of classification and grading of bovine meat carcasses and cuts based on yield and general quality standards. The aim is to establish differential price scales that will not only stimulate production and improve the production process, but also help modernize marketing and encourage consumption. Within this framework, the stock-farmers' associations, meat-packing plants and Livestock Funds can establish their own structure to divide the meat market into segments, taking into account the disposable income of consumers. The Ministry of Agriculture is supporting the initiatives that the private sector is taking in this respect. The modernization system is expected to result in greater quality and price differentiation. In the medium-term, the economic incentives are expected to stimulate investment and improvements in technology, boosting productivity in the Colombian meat sector.

75. When compared to some South American countries, per capita beef consumption in Colombia is relatively low and has decreased significantly since 1990, when it reached an historical peak at 26.3 kgs. In 1992, consumption had dropped to 20.9 kgs. and decreased futher in the first six months of 1993. A difficult economic situation and rising retail prices seem to explain the drop. The new classification system, and especially the segmentation of the market in accordance with the disposable income of consumers, is expected to lead to a consumption recovery as from 1994.

76. Colombia has a relatively active export trade of live cattle to its neighbouring country, Venezuela. In 1991, exports amounted to 96 thousand head, falling sharply to 52 thousand head in 1992. During the first half of 1993, exports decreased again by more than 80 per cent, compared to the correspondent period of 1992, to a mere 4 thousand head. Beef and veal exports have also fallen significantly since 1991. From 10 thousand tons in January-June 1991, exports fell to only 610 tons in 1993. The drop is due almost entirely to sharply reduced sales to Venezuela, also Colombia's major export market for beef. This export reduction to Venezuela, a country with which Colombia has a common external tariff, seems directly due to lower production. The creation of an export promotion Foreign Trade Bank with the task of financing the development of non-traditional exports and granting export credits is expected to boost livestock product exports in the near future.

COLOMBIA			Estimates	Forecast	% Change	
	Unit	1992	1993	1994	1993/92	1994/93
Cattle numbers	'000 head	24,265	24,964	n.a.	2.9	n.a.
Production	'000 t	734.1	347.1*	820.1	n.a.	n.a.
Consumption	'000 t	715.2	346.7*	820.1	n.a.	n.a.
per capita	kgs	20.9	10.0*	23.1	n.a.	n.a.
Exports	'000 t	6.8	n.a.	n.a.	n.a.	n.a.

* January-June 1993

Paraguay

77. In January 1992, cattle numbers in Paraguay had increased by 8 per cent, showing a recovery from the decline registered in the previous year. In 1993, cattle slaughter decreased by 3 per cent, suggesting that inventories continued to rise. The decline was apparently due to higher domestic cattle prices (a 2.8 per cent rise was registered during the first half of the year). With roughly unchanged average carcass weights, beef production decreased by a percentage similar to that of cattle slaughter. In 1994 and 1995, beef production is expected to remain relatively stable, in line with almost unchanged cattle cull when compared to 1993.

Table 8 - Paraguay - per capita meat consumption (kgs.)

	Beef	Pork	Poultry	Sheep	Total
1991	45	21.1	3.6	1.5	71.2
1992	50	21.5	3.3	1.5	76.3
1993	47	21.0	3.3	1.5	72.2
1994	42	20.4	3.3	1.5	67.0
1995	42	20	3.5	1.4	43.4

78. Data relating to per capita beef consumption suggests a significant rise from 32 kgs. in 1990, to 50 kgs. in 1992. Such a rise, 56 per cent in two years, is difficult to explain, especially because beef retail prices increased in parallel with cattle prices. However, beef consumption is estimated to have fallen in 1993, and a further drop is expected for next year (Table 8).

79. Live cattle imports for slaughter are forbidden in Paraguay and there are no imports of bovine meat. Likewise, Paraguay does not export live animals. However, it is an exporter of beef. Exports of frozen beef represent about 54 per cent of the total and fresh and chilled beef represent some 43 per cent. In 1993, of 5 thousand tons (product weight) of frozen beef exported, 60 per cent went to Chile. Of the 4.4 thousand tons of frozen product sold in foreign markets, about 1 thousand tons went to Brazil and close to 800 tons to Chile. Others markets included the EC, and Argentina. Exports of canned beef are relatively marginal and, in 1993, went mostly to Saudi Arabia.

PARAGUAY			Estimates	Forecast	% Change	
	Unit	1992	1993	1994	1993/92	1994/93
Cattle numbers	'000 head (1 January)	7,886	n.a.	n.a.	n.a.	n.a.
Production	'000 t	233	225	225	-3.4	0.0
Consumption	000 t	206	200	185	-2.8	-7.6
per capita	kgs	50	47	42	-6.0	-10.6
Exports	'000 t	27	25	40	-7.1	60.0

Uruguay

80. At 10.1 million head in 1993, cattle herd levels in Uruguay reached not matched since 1988, reflecting increased inventories for all categories of cattle and, in particular, those of beef heifers (24 per cent). Improved pasture conditions since the 1988/89 drought and sustained domestic prices (partly induced by strong export prices to Argentina since 1992), have encouraged producers to retain their cattle. In 1993, cattle slaughter decreased by approximately 3 per cent. However, the meat industry is still faced with financial difficulties and new credit facilities have been introduced.

81. Female cattle cull increased by 13 per cent, suggesting that herd rebuilding is approaching the end. Indeed, in 1994, total cattle slaughter is expected to rise by 24 per cent, especially due to a strong increase in female cattle and calf numbers (40 per cent and 143 per cent, respectively). Total herd growth is expected to slow down in 1994 with cattle numbers probably reaching their peak in this cycle. In 1993, average carcass weights decreased by 5 per cent, indicating lower participation of adult male cattle in the slaughter mix. The number of heavy adult steers seems to have also decreased, after last year's seventeen-year high-increased female cattle and calf cull is expected to result in a further 5 per cent drop of carcass weights in 1994.

82. In 1993, lower cattle slaughter and decreased average carcass weights resulted in an 8 per cent beef and veal production fall. (Veal represents a mere 2 per cent of the total.) In contrast, strongly increased cattle slaughter in 1994 is expected to result in 17 per cent output growth, largely offsetting lower weights. Per capita beef consumption is estimated to have dropped in 1993 in line with higher retail prices. Although at levels below the seventies', per capita beef consumption in Uruguay has remained relatively stable over the last 10 years, reflecting deep-rooted diets. Furthermore, unlike developments in most other countries, relative prices have advantaged sheepmeat in comparison to poultry meat (with prices averaging 32 per cent above those for beef) as a substitute animal protein source for beef.

83. Reduced beef output resulted in lower export availabilities. Furthermore, strong domestic prices rendered the product less competitive, in particular to close markets. During the first nine months of 1993, sales to Argentina (where lower exports and stagnant consumption also resulted in lower import demand) dropped sharply accounting for about 45 per cent of the global export drop during that period. While exports to Brazil were also down by 23 per cent, sales to Chile remained unchanged. Exports to the European Community, Uruguay's second major export market after Israel, were reduced by 10 per cent. Similar to Argentina, Uruguay benefitted from an additional 2 thousand tons of beef under its Hilton quota as compensation for damages caused by the EC's new support system for oilseeds.

The total quota now amounts to 4.3 thousand tons (plus, in 1993, 900 tons to compensate for a zero ton balance sheet). Exports to Israel went up by 16 per cent. In 1994, increased cattle numbers are expected to allow for higher slaughtering and beef output. Bovine meat exports are consequently expected to rise. Lower intervention stocks in the EC may also facilitate the export recovery and allow firmer export prices.

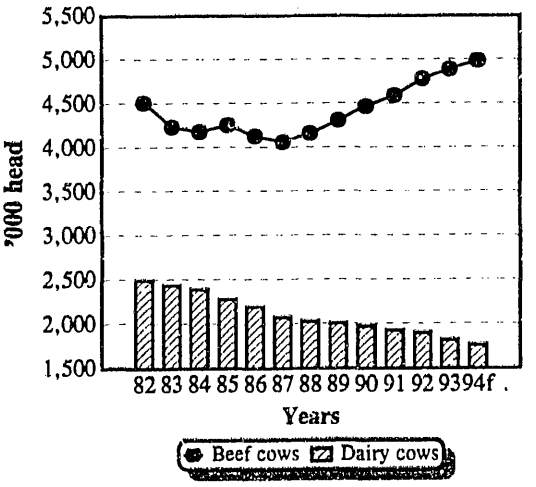
URUGUAY			Estimates	Forecast	% Change	
	Unit	1992	1993	1994	1993/92	1994/93
Cattle numbers	'000 head	9,508 (30 June)	10,100	10,260	6.2	1.6
Production	'000 t	332	307	360	-7.5	17.3
Consumption	'000 t	208	204	212	-1.9	3.9
per capita	kgs	68	66	68	-2.9	3.0
Exports	'000 t	123	103	148	-16.3	43.7

Canada

84. Despite several years of favourable cattle prices, the Canadian cattle herd continues to grow at a modest pace. In 1993, its sixth consecutive year of expansion, total numbers approached 12 million head, their level of a decade ago, but still 16 per cent below the record level of the mid-seventies. The slow growth reflects falling dairy cattle numbers (particularly in Eastern Canada) partly due to the reductions in the milk quotas, and increasing beef cattle numbers in the Western provinces. It has also been suggested that high interest rates through the eighties have been a significant factor in slowing expansion[8].

85. Cattle slaughter is estimated to fall by 4 per cent, or about 140 thousand head, in 1994. Moreover, slaughter cattle exports to the United States are expected to rise by 10 per cent, corresponding to 101 thousand head. Lower cattle cull and increased live cattle exports for slaughter abroad, only slightly offset by increased average slaughter weights, should result in a 3.5 per cent decline beef and veal production. This contrasts with earlier forecasts for a 3 per cent rise) . Slaughter cattle prices increased by 8 per cent in real terms (about Cdn$2/kg on average above the 1992 level) during the first two quarters of the year, reflecting close to record price levels in the United States, a weaker Canadian dollar and lower output. Although retail beef prices appear to have been little affected by stronger cattle prices, estimated per

Chart 6 - CANADA - Cattle numbers



[8]Paper submitted by the Canadian delegation at the IFAP 2nd World Meat Producers Conference, June 1993.

capita consumption decreased by 2 per cent due to the slow economic recovery and continued high unemployment rates.

86. Live cattle export growth to the United States continues to reflect the shift of the Canadian industry to Western Canada and is expected to become a constant trade feature between the two countries through the nineties. Another consequence of the shift of the industry to the West is the increase in imports of high grade beef from the United States. The major beef consuming regions (Southern Ontario and Quebec) are closer to the main producing regions in the United States than those in Canada (Alberta and Saskatchewan).

Box 1

The Canadian government asked the Canadian International Trade Tribunal to undertake an inquiry into the importation of boneless beef originating in countries other than the United States. Following the inquiry, the CITT has found that those imports threatened serious injury to Canadian producers of like or directly competitive products. Therefore, the Tribunal recommended the imposition of an MFN annual tariff rate quota on imports of boneless beef originating in countries other than the United States, effective from 1 May to 31 December 1995. Imports above that level would be subject to an additional tariff of 25 per cent ad valorem. The import quota would be 72,021 tonnes for 1994 and 1995, and 48,014 tons for the period 1 May to 31 December 1993.

Following these recommendations, and under GATT Article XIX, the Canadian Government published a "Surtax on Boneless Beef Order, 1993" on 21 June 1993. It introduced a 48,014 tons quota for imports from countries other than the United States, for the period 1 May to 31 December 1993, with a 25 per cent ad valorem surtax being applied to imports above that level. For 1994 and 1995, the Government indicated that it was commited to take further action, to be announced in the autumn 1993. In separate bilateral consultations with Canada, Australia and New Zealand agreed with this country to extend to 12 December 1993 the period of time set forth in Article XIX:3(a) within which Australia and/or New Zealand must notify any intention to suspend substantially equivalent concessions on imports from Canada.

87. Estimated total beef and veal imports grew by a significant 29 per cent in 1993 to a record level of 287 thousand tons. The rise reflects a 50 per cent import growth during the first six months of the year. During this period, imports from both Australia and New Zealand (mostly low-grade manufacturing beef) were higher than during the entire year 1992. The rise has been largely attributed to the VERs imposed by the United States on imports from these two countries. An inquiry conducted by the Canadian International Trade Tribunal (CITT) determined that boneless beef imports from countries other than the United States were threatening serious injury to Canadian producers. These findings led to the imposition of an annual tariff rate quota of 48,014 tonnes from 1 May to 31 December 1993 (Box 1), a quota filled since 11 July 1993. The possibility of the introduction of a similar measure, coupled with declining domestic consumption and a depreciating Canadian dollar, are expected to result in lower import levels in 1994.

88. Since the implementation of the US/Canada Free Trade Agreement in 1989, beef exports to the United States are no longer subject to the US Meat Import Law. Since then, Canadian exports of fresh, chilled and frozen beef and veal to that market rose from 81 thousand tons in 1991, to an estimated 180 thousand tons this year. This beef export growth was again facilitated by a depreciation of the Canadian dollar against the US dollar. While most imports from the United States are high grade beef, exports to that market are primarily low grade manufacturing beef used, like the product originating in Oceania, as ground beef in retail stores, as hamburgers in fast food restaurants or as a component of processed beef products.

89. The Canadian cattle industry is expected to continue to grow slowly through 1994 and 1995, reflecting the continuation of favourable cattle prices. Another reason advanced for this expectation is that the majority of beef cows in Canada are owned by farmers whose major enterprise is grain production. Given the poor returns realized in grain production these last few years, an increasing number of producers are interested in entering livestock production and it is believed that many of them may be considering expanding their herds.[8]

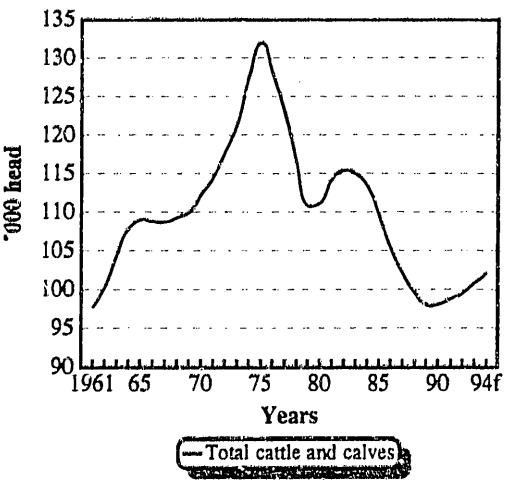
CANADA			Estimates	Forecast	% Change	
	Unit	1992	1993	1994	1993/92	1994/93
Cattle numbers	'000 head	11,713	11,786	11,929	0.6	1.2
Production	'000t	908	876	891	-3.5	1.7
Consumption	'000t	971	964	955	-0.7	-0.9
per capita	kgs	35.4	34.7	33.8	-2.0	-2.6
Imports	'000t	222	287	223	29.3	-22.3
Exports	'000t	159	190	160	19.5	-15.8

United States

90. Estimated cattle numbers in the United States on 1 January 1994 increased by about 1 per cent, underlining the continuation of the slow herd expansion of the last few years. Although the 1 July 1993 cattle inventory showed a 2 per cent rise in beef cow numbers and a 1 per cent reduction in those of dairy cows, it is estimated that, for the year as a whole, dairy cow inventories were also up. Calf numbers are estimated to have increased by 2.2 per cent, reflecting a strong expansion during the second half of the year. Cattle herd growth has been sustained by strong returns to cow-calf producers. Although unusual weather conditions in late 1992 and 1993 resulted in lower than expected cereals output and increased feed prices, herd rebuilding is expected to continue in the near future.

91. By mid-1993, beef heifers entering the herds were well above year earlier levels, compensating for increased cow slaughter. Beef replacement heifers were also up, although less significantly than a year earlier. Unfavourable weather kept feedlot placements high from late 1992 through the first months of 1993. Although weather conditions improved since then, on 1 September, cattle and calf on feed in the seven major states preparing estimates were up by 11 per cent from 1 September 1992. However, even if feedlot performance improved significantly in the second half of the year, average slaughter weights in 1993 are estimated to have declined by 1.3 per cent. Increased calf numbers this year are expected to result in higher feedlot placements in 1994 and fed cattle marketings may rise by 1-2 per cent.

Chart 7 - UNITED STATES - Cattle numbers



92. In 1993, somewhat higher cattle slaughter compensated for lower weights and allowed for a modest growth in beef production. During the second half of the year carcass weights began to recover. In 1994, improved cattle weight and higher cattle slaughter (including fed cattle and beef cows) are expected to result in almost 4 per cent output growth. Per capita beef and veal consumption reached an historical low this year, of 43.2 kgs,. In 1994, lower cattle prices and increased beef, pigmeat and poultry meat supplies, are expected to result in a 3-4 per cent fall in beef retail prices. Coupled with improved consumer's income this could result in the first per capita consumption growth since 1986.

Box 2

Under the North American Free Trade Agreement, the Mexican tariffs on beef imports from the United States and Canada will be eliminated as from 1994. Only the 20 per cent tariff on edible beef offal will remain, being phased-out over the 10 years transition period. The US applies a 2 cents per pound tariff on meat and a tariff of approximately 1 cent per pound on live cattle. Both tariffs will also be immediately eliminated. Furthermore, Mexico will no longer be covered by the MIL (even if Mexico has not been affected by its operation in the past).

Under the NAFTA, cattle trade is expected to increase in both directions. Exports of feeder calves from Mexico to the United States (currently around 1 million head) will rise and more US slaughter cattle, today at about 164 thousand head per year, will be sent to Mexico (maybe over 1 million head). US beef exports to Mexico are expected to immediately revert to levels reached before the introduction of tariffs (64 thousand tons in 1991). By the end of the 10-year transition period, this quantity is expected to expand to more than 200 thousand tons. The small dimension of the Mexican trade relative to the US beef production is expected to have little overall effect on total production and prices.

93. In 1993, in order to avoid triggering the Meat Import Law (MIL), beef imports were limited by voluntary export restraint agreements (VERs) for the third consecutive year. The trigger level was set at 571 thousand tons, product weight. Once again, the VERs affected exclusively Australia and New Zealand. Australia has seen its access to the US market reduced by 7.6 per cent, to 315 thousand tons, product weight. The reduction for New Zealand was of 6.8 per cent, to 193 thousand tons. Imports from Canada, not affected by the MIL since 1989, are estimated to have reached 125 thousand tons, product weight, a 4 per cent rise over 1992. Canadian beef exports to the United States more than doubled since 1988 (Table 9), following the implementation of the US/Canada Free Trade Agreement, which exempted Canada from the operation of the MIL (Box 2). In 1994, beef and veal imports are expected to decrease further, reflecting reduced exports from Australia and New Zealand.

Table 9 - US beef imports from major sources ('000t)*

Country	1988	1990	1992	1993e
Australia	367	369	337	315
N. Zealand	205	185	213	193
Canada	59	82	120	125
Others	59	62	53	63
Total	690	698	723	696

*Fresh, chilled and frozen beef and veal.

94. Led by strong US cattle prices and favourable exchange rates, live cattle imports from Mexico and Canada continued to rise in 1993. At close to 2.7 million head, a new historical record has been reached, one which will probably be exceeded again in 1994. Slaughter cattle imports from Canada (see paragraph 86) exceeded imports of feeder cattle from Mexico for the first time in the last ten years. Imports from Mexico had decreased in 1992, reflecting good weather conditions which, coupled with strong cattle prices, favoured herd rebuilding.

With higher feeder cattle prices in the United States, exports to that market recovered sharply. As indicated, the Canadian cattle industry is expected to continue to grow slowly through 1994 and 1995, reflecting the continuation of favourable cattle prices. Under these conditions, imports from Canada will continue to grow, but probably at a slower pace.

95. United States beef exports have increased steadily in the last few years. In 1993, however, exports decreased by approximately 2 per cent due to lower sales to Canada, Mexico and Korea, offset by only a marginal gain in Japan. Exports to Canada, on a product weight basis, fell by 20 per cent. According to the USDA, during the first eight months of the year, sales to Mexico decreased by 41 per cent and to Korea 33 per cent, compared to the same period in 1992. Lower exports to Mexico were due to the introduction of import tariffs ranging from 20-25 per cent in Mexico, in November 1992. Reduced sales of grain fed beef to Korea reflected this country's requests for shipment delays in the first half of the year and less import tenders than in 1992, despite the signature of renewed bilateral agreements with major suppliers (Box 4). For the year as a whole, exports to Japan rose by slightly more than 1 per cent. US exports to Japan have been hindered by increased Japanese beef output, higher exports by Australia to this market (partly due to the diversion of the Australian exports from the United States reflecting the VERs) and declining beef prices in Japan in recent months. Live cattle exports fell by 2 per cent to 250 thousand head. The decline reflected lower sales to Mexico following the imposition of a 15 per cent tariff rate on slaughter cattle imports in November 1992. Increased sales to Korea in line with the agreement reached with this country, and a recovery of beef exports to Japan are expected to result in a significant export recovery next year.

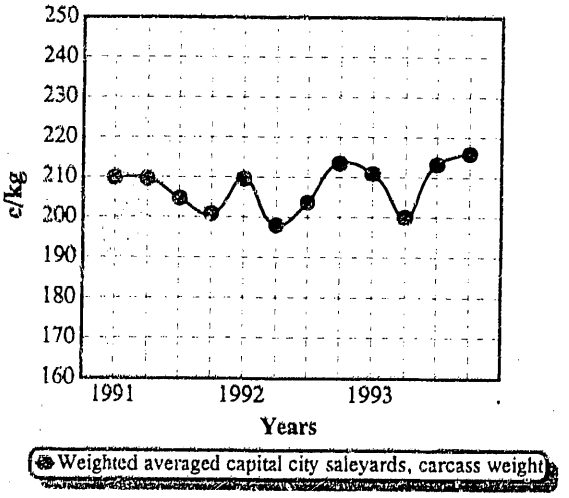
UNITED STATES			Estimates	Forecast	% Change	
	Unit	1992	1993	1994	1993/92	1994/93
Cattle numbers (1 January)	'000 head	99,559	100,892	102,160	1.3	1.3
Production	'000 t	10,611	10,638	11,010	0.3	3.5
Consumption	'000 t	11,147	11,146	11,451	0.0	2.7
per capita	kgs	43.6	43.2	44.0	-0.9	1.9
Imports	'000 t	1,107	1,093	1,075	-1.3	-1.6
Exports	'000 t	601	590	635	-1.8	7.6

Australia

96. In 1992/93, dry seasonal conditions resulted in increased cattle loss and cattle slaughter and depleted inventories. Weather conditions have now improved in most producing regions, including Queensland, and it is expected that slaughter will slow down. This should result in lower beef production and increased cattle inventories in 1993/94. Cattle slaughter is forecast to decrease by 8 per cent (5 per cent in the 1993 calendar year), and beef production by about 7 per cent, despite higher average carcass weights.

97. Tight domestic supplies and strong export demand have resulted in strong cattle prices (Chart 8). The price strengthening is also related to the so-called "exchange rate pass-through"[9], the effects of exchange rate changes on domestic saleyard prices. In 1993, there was a strong depreciation of the Australian dollar against the US dollar. It has been estimated that the decline of 9 per cent in the Australian dollar against the US dollar in the past twelve months added around 13 c/kg to cattle prices or between A$25-45 per head depending on the weight of the carcass. This added an extra A$300 million in beef production value over a twelve month period. Furthermore, and although most contracts to Japan are negotiated in US dollars terms, the 22 per cent decline of the Australian dollar against the Yen during 1993 improved the competitiveness of Australian beef against Japanese dairy steer beef, pork and poultry[10].

Chart 8 - AUSTRALIA - Cattle prices



98. The ABARE September 1993 forecast for 1993/94 shows that beef is one of the few bright spots in an otherwise gloomy Australian environment. Continued sluggish economic activity in the major OECD countries, low world commodity prices and generally good seasons for world agriculture are among the reasons cited to explain the expected poor performance of the agricultural sector in Australia. Wool and wheat prices are forecast to decline and so is the production of wool, beef and wheat. However, the drop in beef output is expected to be *complimented* by firm export demand and the saleyard indicator price for cattle should increase by 8 per cent in 1993-94. Current export trends suggest that the rise could be even higher. Lower production and increased saleyard prices are resulting in higher retail beef prices and per capita consumption is falling, a trend expected to continue in 1994. With retail prices for lamb expected to rise at a slower pace, sheepmeat intake will be the main beneficiary of this trend.

99. Beef and veal exports fell by 3 per cent during the first half of the year, due to reduced output and the renewed imposition of VERs by the United States. (The VER limits Australian beef and veal exports to the US to 315 thousand tons, product weight, 7 per cent less than in 1992). In recent months, exports have also been affected by the imposition of a 25 per cent tariff rate quota on beef imports by Canada and by low Korean purchases. Nevertheless, Australia has benefited from strong export prices in all of these markets (Chart 8).

100. Despite signals of a weakening demand for manufacturing beef in recent months in the United States, export returns from the US market reached record levels in September (about 25 per cent on average above last year). This apparently reflects the fact that about 85 per cent of the global quantity permitted by the VERs had already been filled. However, since then plentiful supplies of domestic manufacturing beef resulted in sluggish US import demand for this type of beef, exerting a downward pressure in imported beef prices. Moreover, United States imports from Central America (which are not covered by the VERs imposed under the Meat Import Law) have increased significantly this year.

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[9]AMLC - Meat and Livestock Review, May 1993.

[10]Cattle Council of Australia, National Cattle Market Bulletin, September 1993.

101. Australian beef exports to Japan increased by 34 per cent during the first six months of 1993. A number of factors explain this boost in exports, including the reduction of the Japanese beef import tariff in April 1993 and the diversion of Australian product from the US market to the Japanese market as the result of the VERs imposed by the United States. However, sales to Japan, the bulk of which are grain-fed beef, seem to have been particularly stimulated by the favourable exchange rate movements. Export prices to this market averaged well above the previous year's level, and export returns last September reportedly averaged A494c/kg, 11 per cent higher than during the same period of 1992. Because the price rise was largely due to the Australian currency depreciation, the cost of the product to the Japanese importers did not rise but, on the contrary, would have fallen by about 15 per cent.

102. Purchases by the Republic of Korea in 1993 were disappointing to the Australian industry, even if the favourable exchange rate resulted in higher export returns. From January to September, exports to that market totalled 37 thousand tons, half the volume sent in the corresponding period of 1992. After continued requests for shipment delays in the first half of the year, Korean tenders after the signature of renewed bilateral agreements with major suppliers (Box 5), were lower than in 1992. Furthermore, Australian sales to this market have been under increased competition from New Zealand grass fed beef and from the rising interest in Korea for United States grain fed beef.

Box 3

The AMLC has introduced an entitlement export scheme which allocates to exporters tonnage for shipment to the United States based on past export performance. The deadline for calculating the 1994 entitlement was 31 October 1993. Consequently, exporters had a particular interest in increasing their export performance to the maximum extent possible before the deadline, in order to optimise their export entitlement for next year. Furthermore, a special end-of-year 60,000 tons allocation has been introduced to avoid a possible overhang of the market. These exports must be bonded or on-the-water for entry into the United States as from January 1994, and will be deducted from the exporter's 1994 entitlement if a VER is negotiated for 1994.

AUSTRALIA			Estimates	Forecast	%Change	
	Unit	1992	1993	1994	1993/92	1994/93
Cattle numbers	'000 head	23,880	23,705	23,770	-0.7	0.3
Production	'000 t	1,838	1,750	1,730	-4.8	-1.1
Consumption	'000 t	644	648	643	0.6	-0.8
per capita	kgs	36.8	36.6	35.9	-0.5	-1.9
Exports	'000 t	1,195	1,102	1,087	-7.8	-1.4

Box 4 - Import Liberalization of the Republic of Korea's Beef Market

For beef exporters, the Republic of Korea has been a large and rapidly growing but nonetheless restricted market. In 1990-93, the country was the number six importer in the world, accounting for 5 per cent of world exports. The main suppliers were Australia, the US and New Zealand.

Korea's import restrictions include tariff and non-tariff bariers: the import tariff on beef is currently 20 per cent *ad valorem* and bound under GATT. In addition, Korea maintains quotas on the importation of beef, but - as the result of three GATT panels - these were agreed to be phased out by July 1997. In 1988, following complaints by Australia, New Zealand and the US, the panels requested a gradual liberalization of the quantitative import restrictions.

Beginning in the mid-1970s, Korea had adopted measures to promote domestic cattle production via subsidies and a ban on low-weight slaughtering. Concurrently, beef imports began to rise from 700 tons (product weight) in 1976 to 52 thousand tons by 1983. The rising beef supply led to falling prices and profits of domestic cattle farmers. Between May 1985 and August 1988, Korea suspended beef imports. Since its accession to the GATT in 1967, Korea has maintained import restrictions on beef, among other products, to protect its balance-of-payments as is permitted for developing countries under Art. XVIII. However, the panels found this restriction was designed to protect the domestic cattlemen rather than the balance-of-payments. Nominal protection rates in the mid-1980s were in the magnitude of 350 per cent. Since 1990, Korea has ceased the use of trade of measures under Art. XVIII.

In 1990, and again in July 1993, the three complaining parties reached bilateral, staged market access agreements with Korea, for the periods 1990-92 and 1993-95. The essential features of the agreements are minimum import quotas, and domestic distribution quotas:

Import quotas. Korea committed itself to gradually increase minimum imports, with the base quotas being implemented on a m.f.n. basis (see table below). In 1990-92, actual Korean imports were far in excess of the quota levels. The results of the Uruguay Round will change the quota approach towards import liberalization: the general rule is tariffication of all border measures other than ordinary customs duties.

Table 10 - Beef Imports and Quotas of the Republic of Korea (in '000 m.t., carcass / product weight)

Years	1990	1991	1992	1993	1994	1995
Base Quota (product weight)	58	62	66	99	106	113
SBS Share of Base Quota	-	-	5	10	21	34
Actual Imports (product weight), of which	84	125	132	96*		
Australia (in %)			52	43		
United States (in %)			40	44		
New Zealand (in %)			8	13		
Actual Imports (carcass weight)	117	176	183	140	180	n.a.
Imports (c.w.e.) as % of Domestic Production	90	130	134	85	106	n.a.

* up 1 Oct. 1993
Source: AMLC, USDA

Distribution quotas. The agreements also provide for increasing direct access of overseas sellers to the Korean distribution system under the newly created Simultaneous Buy/Sell system (SBS). Formerly, the Korean Livestock Products Marketing Organization (LPMO), a state-trading enterprise, presented an import monopoly, which auctioned the quota imports off to wholesalers and thus prevented that foreign suppliers conduct business with Korean distributors and customers. The bulk of beef imports will continue to be channeled through the so-called general tender system administered by the LPMO. The SBS system encompasses economic agents referred to as Super-groups, and private enterprises. Super-groups are organizations or associations of customers, which may, in turn, allocate import shares among their affiliated end-users. In 1993, 10 per cent of minimum base imports were allocated to the SBS system, and this share will rise to 30 per cent in 1995. In the SBS system, sellers and buyers simultaneously submit bid and ask prices to the LPMO, which adds a mark-up on the c.i.f. price. Exporters hope that this system will allow for more product differentiation and a wider spectrum of customers.

New Zealand

103. Beef cow numbers have now almost entirely recovered to the levels prior to the 1988/89 drought, which had resulted in major cattle losses. Up by 6.5 per cent according to the last June cattle census, numbers have surpassed 1.5 million head. The rise contradicts earlier expectations for falling numbers which seem had been based on the assumption of a decline in beef returns following price drops registered in December 1992 and March 1993. However, according to the New Zealand Meat and Wool Board. the season average price for beef increased by 8 per cent to NZ dollars 2.95, for a 245.5 to 270 kg prime steer[11], sustaining the continued expansion of the beef herd. Dairy cow inventories also went up by 4 per cent and the total cattle herd may reach an historical record level next year.

104. The continued cattle herd expansion in recent years partly reflects the increased profitability of beef and dairy farming compared to sheep. However, and even if a favourable exchange rate has so far translated into higher export returns, manufacturing grade beef revenues are forecast to decline due to export constraints to North America. Moreover, sheepmeat and wool returns are expected to recover somewhat. The move from sheep to cattle farming is thus estimated to come to a halt and after reaching a record level next year, it is probable that cattle herd reduction will begin.

105. Estimated cattle slaughter rose by 12 per cent in 1993, reflecting increased cattle numbers in recent years. Good pasture conditions through the summer and beginning months of the winter allowed for higher average slaughter weights. Added to increased slaughter, this resulted in a 15 per cent production rise. Increased output and limited access to major traditional export markets resulted in larger beef availabilities for the domestic market. Beef retail prices increased significantly less than those of major competing meats a 2 per cent rise in real beef retail prices compared with a 20 per cent rise in sheepmeat and pigmeat prices. As a result, beef and veal consumption is estimated to have increased by 7 per cent. If this estimate proves to be correct, this may mean that the steady decline of the last few years has come to a halt after the historical low reached last year. Forecast for the next two years are for per capita consumption similar to current levels.

Box 5 - "The preferred supplier of meat in selected markets"

This is the basic statement of a report published last August by the New Zealand Meat Producers Board (NZMPB)*. It is the Meat Board's Strategic Plan and looks forward the next seven years to 2000. Among the targets fixed by the Plan, the country's meat industry aims to earn by the year 2000, NZ$5.5 billion through trade ($3.8 billion expected in 1993) by exporting 272 thousand tons of lamb, 37 thousand tonnes of mutton, and 297 thousand tons of beef (product weight). The value surplus will come from similar, or smaller, volumes that are currently exported (implying significantly increased unit values). Noting that there is limited scope for much higher production volumes in New Zealand, the report puts accent in improved productivity and quality. It expects the biggest growth to come from sheepmeat, while more limited growth prospects for beef will be led by the domestic market, Asia and increased tourism. "For New Zealand's meat industry to remain the number one export sector in the country, it must keep growing and adding value to the economy. The path ahead for the meat industry is more one of value growth than of volume" says the report.

* *NZMPB Strategic Plan, 1993-2000*

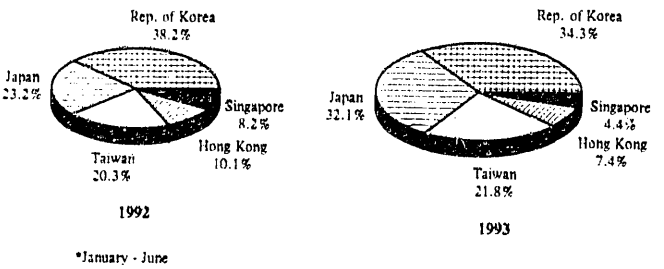
106. In a country where beef and veal exports account for around 80 per cent of total production, strongly increased output normally results in higher exports. This will be the case for New Zealand this year, when beef and veal exports are expected to reach 451 thousand tons, approaching their 1988 historical record (see also Box 5). The imposition of VERs by the United States for the third consecutive

[11] Annual Review of the New Zealand Sheep and Beef Industry 1992/93, NZ Meat &Wool Boards' Economic Service

year (at 193 thousand tons, product weight, 7 per cent below last year) resulted in the diversion of exports to alternative markets. Such market diversion is clearly shown by export destinations during the first half of 1993 (Chart 9). The strong rise in exports to Canada (both from New Zealand and Australia), led to the introduction of a 25 per cent tariff rate quota by that country on imports of beef originating in countries other than the United States, effective from 1 May 1993. Even if this dissuasive tariff may have curtailed Australian beef exports to Canada more severely than New Zealand sales, such action also pushed New Zealand to intensify efforts to find alternative markets in the "Pacific rim", particularly in Asia.

Chart 9 - NEW ZEALAND - Exports to Asia

1992 - 1993*



*January - June

107. Exports to Chinese Taipei have thus increased by 40 per cent from January to June 1993 and, despite low global imports by the Republic of Korea, sales to that market increased by 18 per cent during the same period. Increased beef production in the next two years is expected to result in a further expansion of beef exports. At this time, it is believed that the United States will impose further VERs (at lower levels) on Australia and New Zealand in 1994. Moreover, the possibility exists that the 25 per cent tariff rate quota introduced by Canada will be maintained. Should this be the case, it can be assumed that New Zealand will accentuate efforts to diversify export markets.

NEW ZEALAND			Estimates	Forecast	% Change	
	Unit	1992	1993	1994	1993/92	1994/93
Cattle numbers	'000 head	8,145	8,600	9,000	5.6	4.7
Production	'000t	525	606	611	15.4	0.8
Consumption	'000t	102	108	111	5.9	2.8
per capita	kgs	29	31	31	6.9	0.0
Exports	'000t	441	451	480	2.2	6.5

Japan

108. In 1993, despite declining prices, herd expansion continued in Japan. The expansion was entirely due to the continued growth of beef cattle numbers which fully offset a decline in dairy cattle inventories. Furthermore, the numbers of dairy steers raised for beef production continued the steady rise observed in the last few years. Increased cattle numbers have allowed for higher slaughter, which went up by 2 per cent. Rising slaughter also reflects lower cattle prices. A sustained rise in cattle cull can be traced from 1990. Since then, the average wholesale price for medium Wagyu steers (B-2, B-3) fell from 1,256 yen/kg., to 921 yen/kg. This 27 per cent fall put prices only slightly above the 905 Yen/kg. lower price provided by the Stabilization Price mechanism (Box 6) in June 1993. During the same

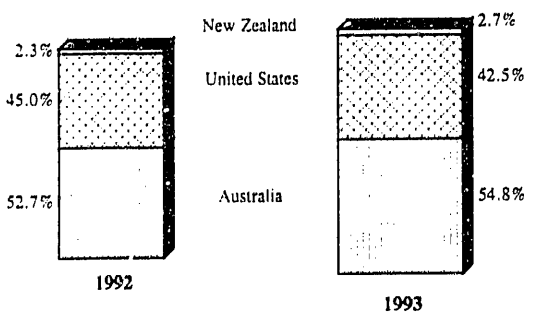
period, dairy cow prices (live weight) fell by 47 per cent, compared to a 16 per cent decline in 1990. In line with this evolution, the expansion rate of the Japanese cattle herd is expected to slow down in 1994.

109. From January to September 1993, increased cattle slaughter was partly offset by somewhat reduced carcass weights. Production increased by only 0.5 per cent an estimated 592 thousand tons by the end of the year. The continued erosion of cattle prices, in conjunction with the slowdown of economic growth and increased competition from imported beef, is also affecting beef output. Despite Japan's economic recession, estimated beef consumption exhibited the strongest growth of the last few years, 9 per cent between January and September 1993. The rise is related to lower retail prices in general, and in particular those of cheaper quality beef to which Japanese consumers seem to be turning. For example, retail prices of chilled chuck fell by 8 per cent in Tokyo. The price decline, brought about in recent years by increased imports, was supported last year by a number of actions including promotion campaigns and supermarket sales at discounted prices. Consumption growth may slow down somewhat in 1994, but demand for imported beef, whose price falls more substantially than domestic beef, will remain strong.

Box 6

The objective of the Stabilization Price mechanism is to maintain the wholesale price of domestic beef within a price band, through market intervention by the Livestock Industry Promotion Corporation (LIPC). At the start of each fiscal year, taking into account the supply/demand situation, the Minister of Agriculture, Forestry and Fisheries fixes a minimum (the Lower) and a maximum (the Upper) stabilization price. The LIPC is empowered to buy beef if the market price falls below the Lower price, or to sell if it rises above the Upper price. Stabilization prices have been lowered gradually in recent years and, to date, no market intervention has been required.

Chart 10 - JAPAN - Imports from main markets 1992 - 1993*



*January - September

110. In 1993, beef imports (some 544 thousand tons during the first three-quarters of the year, up by 31 per cent) surpassed domestic production for the second consecutive year. Two main factors explain last year's import boost: the reduction of the Japanese beef import tariff in April 1933 (from 60 per cent to 50 per cent); and the appreciation of the Yen against the US dollar. Australia benefitted the most from the Japanese import surge (Chart 10). Supported by a favourable exchange rate (Australian export returns in September 1993 averaged 11 per cent higher than during the same period of 1992, while the cost of the product to the Japanese importers would have fallen by about 15 per cent), and faced with the VER imposed by the United States, Australia diverted product from the US to the Japanese market. Sales to Japan increased by 29 per cent during the first nine months of 1993. During the same period, Japanese imports from the United States increased by 17 per cent and purchases from New Zealand grew from 7 thousand tons to 10 thousand tons.

111. As in 1992, beef stocks were reduced during the first quarter of the year (74 thousand tons) and surged after the tariff reduction, peaking at 134 thousand tons in September 1993 (a level not seen since April 1991). In conjunction with the growth in production and, in particular, the import surge

which fed them, stock levels exerted further downward pressure on prices. Declining prices will probably result in lower import growth as from 1994.

JAPAN			Estimates	Forecast	% Change	
	Unit	1992	1993	1994	1993/92	1994/93
Cattle numbers	000 head	4,980	5,024	5,055	0.9	0.6
Production	000 t	592	595	605	0.5	1.7
Consumption	000 t	1,191	1,242	1,280	4.3	3.1
per capita	kgs.	9.6	10.0	10.4	4.2	4.0
Imports	000 t	603	675	695	11.9	3.0

The International Markets for Pigmeat, Poultry Meat and Sheepmeat

The Pigmeat Market

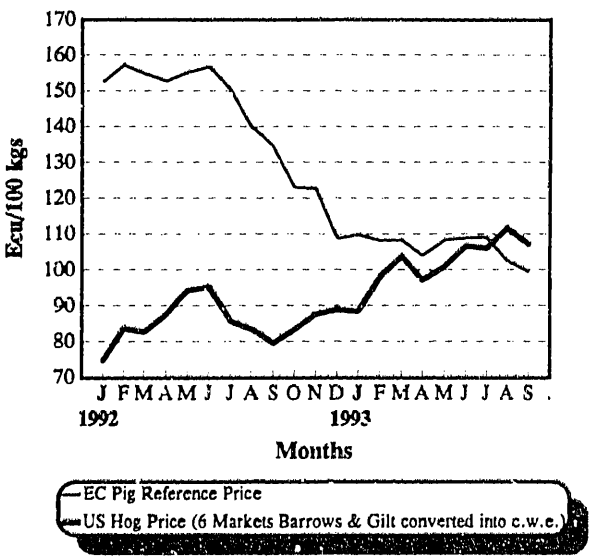
World Trends

112. World pigmeat production surpasses by far the production of any other type of meat. FAO estimates world output in 1993 at around 74.1 million tons, as compared to some 53.1 million tons of bovine meat. About half of world production originates in the developing countries, a larger share than for other types of meat. This comparatively high share is largely due to China's contribution of about 28 million tons. World pigmeat production expanded by an estimated 3 per cent in 1993. Regions of growth are in the developing countries, notably China (up 6 per cent), and the EC, while production continued to decline drastically in the CIS. Pigmeat production is typically almost entirely destined for domestic consumption. Thus, despite high production levels, world trade in pigmeat in 1993 is estimated at only 1.8 million tons according to FAO.

European Community

113. Overproduction has pushed the EC pigmeat market into a state of crisis. Farmers are grapplingwith a 50 per cent fall in prices since mid-1992 (see Chart 11). The pressure on prices has been triggered by strong price incentives in past years and, more recently, by the producers' expectations of lower feed costs as a result of the CAP reform. The self-sufficiency ratio of some EC member states has risen sharply, notably France, and Germany's production has recovered. Despite the sharp fall in prices, the August 1993 pig census reveals that in some member states, particularly Denmark, the breeding herd is still increasing, which signals increased production in the future. Total EC pig slaughterings, based on this census, are forecast to rise by 0.5 per cent by July 1994.

Chart 11 - EC versus US Pig Prices



114. The European Community has taken a number of measures in order to support internal prices, including an Aids to Private Storage scheme (APS) and additional export refunds. The quantity taken off the market under the APS, which expired in June 1993, totalled some 72 thousand tons. In May and September 1993, the European Community offered exporters special, increased refunds of ECU 600 per ton of carcasses and, in the September tender, ECU 700. These tenders totalled 60 thousand tons for export to Russia, Ukraine and Belarus. The second tender was heavily oversubcribed and gave rise to requests for a third export campaign. In France, the Government intervened with subsidy packages to assist its financially squeezed pig (and sheep) farmers.

115. Community preference is evidenced by the fact that only about 3.5 per cent of the EC member states' total imports are sourced from third countries. Import protection is based on sluicegate prices plus import levies. Both components provide an effective minimum import price. The European

Community is an important market for the Eastern European countries. Under the Interim Agreements of Poland, Hungary and the Czech and the Slovak Republics with the European Community, agricultural trade liberalization is phased and selective, i.e. the agreements provide for preferential and increasing commodity-specific import quotas. For the period July 1993 to June 1994, preferential import quotas to the EC pigmeat market have been fixed as follows: Hungary, 27.3 thousand tons; Poland, 11 thousand tons; Czech and Slovak Republics, zero. These quotas are subject to a levy reduction of 50 to 60 per cent.

116. Demand from Japan, the Community's major overseas market, was very week. Imports were 10 per cent lower in the first part of 1993 compared to 1992. Denmark is the Community's leading exporter to third countries. Export refunds varied between ECU 250 and 350 per ton of pig carcasses. In July 1993, Japan cleared the way for France to export to Japan by classifying the country as an FMD-free area.

117. The European Community experienced a marked increase in (live animal) trade-related disease outbreaks in the wake of the introduction of the Single Market in January 1993. The European Community has since then been lacking a system for monitoring the movement of animals within the European Community. A computerized EC-wide system (ANIMO) is due to be introduced. Moreover, the EC imposed a twelve-month ban on pig and pigmeat imports from Hungary, the leading exporter to the European Community, following an outbreak of classical swine fever in Hungary.

Table 11 - EC Pigmeat Trade with Third Countries in 1992 ('000 m.t. product weight)

Exports		Imports	
Japan	172	Hungary	44
United States	80	United States	41
Canary Islands	33	Poland	12
Sweden	32	Romania	6
FSU	17	Bulgaria	3
Total	516	Total	120
EC intra	3,500	EC intra	3,500

Source: MLC

United States

118. Contrary to previous forecasts for anotherrecord production, US pigmeat production in 1993 was slightly lower than in 1992. A phase of declining pig prices in the second half of 1992 reduced incentives for increased production in early 1993. While pig prices in 1993 were more favourable than in 1992, producers were faced with higher feed costs as a result of flooding in the major crop producing areas. For 1994, production is forecast to remain stable given the breeding decisions made in 1993.

119. Exports in 1993 are expected to reach the same level as in 1992, despite a strong decrease of shipments to Mexico, the United States' number two export destination. After having increased by 64 per cent in 1992, exports to Japan are estimated to have increased only modestly, a result of the recession and increasing competition from beef. For the first time, in 1993 export subsidies under the Export Enhancement Program (EEP) were made available also to pigmeat exporters. Subsidies (so-called bonuses) were available for 30 thousand tons for sales to Russia. As of late 1993, no bids were received.

120. The United States is the second major pigmeat importer after Japan. Imports recovered after a strong decline since 1989-90. Imports from the European Community increased strongly as US and

EC prices converged. As Chart 11 indicates, the price gap between the United States and the European Community has narrowed considerably since 1992.[11] Imports from Canada, by far the major exporter to the United States, are expected to remain stable in 1993.

Canada

121. In Canada, the pig cycle apparently peaked in January 1993. Consumption trends in Canada mirror those of other Western countries. Per-capita meat consumption has only slightly decreased over the past ten years, and demand has shifted away from beef and pork to poultrymeat. Pork exports accounted for 25 to 30 per cent of Canada's production in recents years, with the United States being the largest export market. In 1992, almost all exports of live pigs and 73 per cent of processed pork went to the United States. In 1993, live hog exports to the United States are expected to increase by approximately 20 per cent to reach 825 thousand head, the countervailing duty notwithstanding (see below).

122. The Canada National Tripartite Stabilization Programme (NTSP) is the single most important source of subsidies in the Canadian hog sector. In 1991 the NTSP gave rise to a GATT dispute between the United States and Canada over counterveiling duties on pigmeat exports from Canada. Following the GATT panel ruling, the counterveiling duty on pigmeat was removed. A counterveiling duty on live pigs, which was not subject to the panel, has been levied since 1988. The rate is regularly reviewed. Following procedures under the US-Canada Free Trade Agreement Binational Panel, the rate was slightly reduced in June 1993, from Can$ 9.32 to Can$ 9.27 per hundredweight of live weight (Can$ 0.18 per kg.).

Japan

123. Japan's pigmeat sector has experienced a sustained contraction since 1989. It is an industry which, like the poultry industry, sees itself confronted with rising costs and declining competitiveness vis-à-vis imports, partly as a result of increasingly strict pollution standards. Furthermore, domestic producers have come under strong competitive pressure from the beef market. Self-sufficiency has decreased from 77 per cent in 1989 to 69 per cent in 1993. With production forecast to decline further by about 3.5 per cent per annum and domestic demand expected to grow, imports are set to expand in the years to come. At less than 20 kgs., per capita pigmeat consumption in Japan it is not particularly high by international standards, but it is slowly growing. Per-capita consumption of pigmeat exceeds that of other meats; only fish consumption is much higher (around 37 kgs.).

124. After two years of double-digit growth, Japan's imports of pigmeat are expected to decline strongly in 1993. In 1992, imports had risen sharply due to a strong yen and cheap overseas supplies, notably from the United States. In the first half of 1993, imports were down by 10 per cent. While exports from Taiwan and Denmark, the major suppliers to Japan, were significantly smaller, US sales remained constant, and South Korea doubled its exports to reach 6 thousand tons. High carry-over stock levels from 1992 and enhanced competition from the beef market were the major reason for lower imports.

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[11]In order to make prices comparable, the US live-weight price series, the so-called 6 Markets Barrows and Gilt price, was converted into a carcass equivalent price using a conversion factor of 0.75. This conversion was necessary because the EC reference price is a carcass-based price. In addition, the US price was converted into metric units, and converted from US dollars into ECUs using monthly exchange rates as published by EUROSTAT.

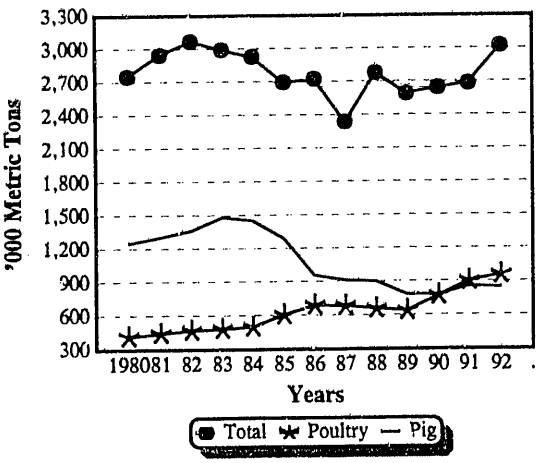
China

125. In China, pigmeat is by far the dominant type of meat produced and consumed. In 1992, 78 per cent of total meat production was pigmeat, followed by poultrymeat with a share of 12 per cent. Growth in production has been in the magnitude of 7 to 8 per cent in recent years. For 1993, output is estimated at some 28 million tons, 6 per cent higher than in 1992. Pigmeat exports more than halved in 1992, which was partly due to lost export markets in the former Soviet Union. For 1993, exports are estimated to remain at the 1992 level of 120 thousand tons. China's main destination for pigmeat and live hogs is Hong Kong. Chinese export prospects are endangered by the occurrance of FMD.

Mexico

126. Although total meat production in Mexico has increased continuously since 1990, production levels have not been higher than in the early 1980s. In fact, Mexico is recovering from the sharp contraction in production and consumption experienced in 1988-89. In the pigmeat sector, Mexico's production and consumption in 1993, estimated at 870 thousand tons, is some 500-600 thousand tons below levels in the early 1980s. Part of the explanation is that consumers have shifted away from pigmeat and beef to poultry as a result of more attractive prices. Poultry production and consumption have therefore hardly been affected by the U-shape cycle of Mexico's meat industry (see Chart 12). For 1994, pigmeat consumption is forecast to rise further, assuming both a growing population and economy, and stable retail prices.

Chart 12 - MEXICO - Meat consumption



127. Mexico has evolved from a state of autarky in pigmeat before 1988 to one of the major importers in the world. Imports have varied between 30 thousand tons in 1990 and 59 thousand tons in 1992. Import tariffs on pigmeat and live hogs, in effect as of November 1992, are 20 per cent ad valorem. The main pigmeat exporter to Mexico is the United States. In April 1993, the Mexican Government initiated an anti-dumping investigation US exports of fresh and processed pigmeat. Under NAFTA, Mexico will establish a special safeguard tariff-rate import quota. Although US tariffs on pigmeat and hogs are zero, imports from Mexico are likely to remain under prohibition due the occurrence of hog cholera in Mexico.

Poland

128. Poland's steadily growing pigmeat production has been spared by the strong contraction in Eastern Europe's agriculture since the beginning of the transition process in 1990. In Poland's predominantly family-owned agriculture, pigs are held in small units, averaging 8.2 head per farm compared to more than 56 in the European Community. In June 1990, the Polish Government established the Agricultural Market Agency (AMA) to stabilize markets including the pigmeat market. The AMA is a public agency vested with the mandate to engage in purchases, sales, stock management, and foreign trade. Since May 1992, the AMA operates an intervention scheme which is triggered when

producer prices decline below the floor price. Thus, pigmeat intervention purchases from mid-January to mid-June 1993 totalled about 61 thousand tons, destined for subsequent sale in the domestic market. So far, the AMA's activities in foreign trade have been focused on the grain and sugar sectors, with transactions commissioned to private trading firms. In the pigmeat sector, AMA export operations have been negligible.

129. Poland used to be an important exporter of pigmeat, with exports averaging about 100 thousand tons in the period 1980-87. In 1988, exports plummeted and have not recovered so far. The difficult competitive situation of Poland's exporters has been due to a number of factors, including the non-availability of export subsidies, the value of the Zloty against the US dollar, rising production costs, and increased competition from other Eastern European countries. Preferential import quotas into the European Community for 1993/94 amount to 11 thousand tons. While the European Community ban on imports of meat and livestock from Eastern European countries was revoked in April 1993, live animal imports from Poland remain subject to a 15-day quarantine period. Imports were very volatile in the past decade but have been rising constantly since 1988, to the effect that net imports are growing.

Russia

130. In 1993, land reform, a politically most sensitive issue, had not yet reached the stage of breaking up the sovhozes and kolkozes. In 1992, a privatization law was passed, in which land title was merely passed from the State to the collectivized farms. Free trade in land was not been permitted except for small plots for personal subsistence farming. In October 1993, the Russian President decreed that, as of January 1994, Russian citizens are free to purchase and sell land including property shares held in the collectivized farms. There remain, however, major disincentives to private farming in Russia, including rapid increases in input prices and the structure of storage, transport, processing and distribution systems.

131. In the livestock sector, individual (private) production on small units has contributed significantly to total meat supply. One estimate puts the share at 25 to 29 per cent for the entire former Soviet Union. Russia was a meat deficit region within the former Soviet Union: Russian meat imports in 1988 are estimated at 1.8 million tons. Apparent consumption of industrially processed pigmeat was in the magnitude of 20 kgs. per capita. Livestock (Table 12) and milk production in Russia remains subsidized but subsidies have been linked to obligatory deliveries to the State procurement sector (45 per cent of production). As of January 1994, obligatory delivery is abolished.

Table 12 - Russian Livestock Production (million m.t. c.w.e.)

	1991	1992	% Change 1992/91
Beef	3.98	3.44	- 14
Pigmeat	3.19	2.86	- 10
Poultry meat	1.75	1.58	- 10
Sheep & goats	0.35	0.32	- 9

Source: USDA

132. Livestock numbers continued to decline sharply in the first six months of 1993, for various reasons, including feed shortage and non-profitability. Stocks of cattle, pigs and poultry were decimated, and by mid-1993, according to Agra Europe Eastern Europe, pig numbers were some 17 per cent below 1992 levels. Industrial meat production is estimated to have declined by 17 per cent to 1.6 million tons in the first half of 1993. Russia has been eligible for special pigmeat export refunds from the European Community and the bonuses under the United States EEP. In April 1993, Russia banned all imports of red meat and poultry meat from the United States on health grounds. Agreement was later reached on sanitary clearance, except for pork.

Table 13 - Pigmeat Situation in Selected Countries ('000 metric tons carcass weight equivalent)

		1992	1993 Est.	1994 Forec.	% Change 1992/93	% Change 1993/94
Production	**World ***	72,000	74,100	2.9	2.9	n.a.
	China **	26,353	28,000	30,000	6.2	7.1
	EC	14,388	14,972	14,922	4.1	-0.3
	US	7,817	7,653	7,668	- 2.1	0.2
	Russia **	2,856	2,550	2,400	- 10.7	- 5.8
	Poland**	2,085	1,910	1,748	-8.4	-8.5
Exports	**World ***	1,710	1,761	3.0	3.0	n.a.
	EC	537	571	6.3	n.a	n.a.
	Canada	294	331	356	12.6	7.6
	Taiwan **	303	280	300	- 7.6	7.1
	US	185	186	179	0.5	- 3.8
Imports	Japan	684	718	n.a	4.9	n.a.
	US	293	303	308	3.4	1.7
	Hong Kong **	198	220	230	11.1	4.5
Consumption	China	26,236	27,880	29,875	6.3	7.2
	EC	13,911	14,482	14,432	4.1	-0.3
	US	7,926	7,782	7,822	1.9	0.5
	Russia **	3,165	2,794	2,640	- 11.7	- 5.5
	Japan	2,088	2.067	n.a.	-1.0	n.a.
Consumption (kg)	Austria **	50.7	50.9	50.7	0.4	-0.4
	EC	40.2	41.7	41.4	3.7	-0.7
	Hungary	33.0	n.a.	n.a.	n.a.	n.a.

Source: GATT; for non-participating countries - * FAO, ** USDA

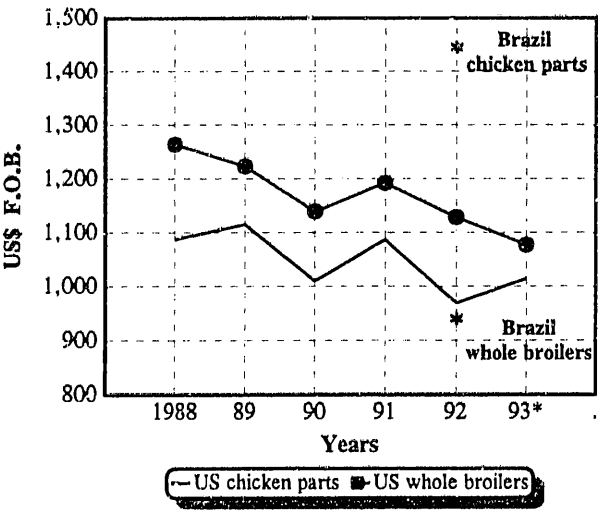
The Poultry Meat Market

World Trends

133. World poultry meat production in 1993 continued the trend of catching up on pigmeat and beef production. According to FAO's preliminary estimate, poultry meat production grew by almost 4 per cent in 1993, while world beef production contracted by about 1 per cent. Output is estimated at 45.4 million tons, some 8 million tons less than world beef production. In 1990, the gap between beef and poultry meat production was still in the magnitude of 14 million tons. This development has been driven by the substitution process in meat consumption that has been taking place throughout major parts of world. Major areas of growth in 1993 were the United States (up 4 per cent), China (up 12 per cent) and Brazil (up 8 per cent). Taken together, these three countries account for about four-fifths of the global output expansion in poultry meat in 1993. The USDA forecast for 1994 is for further growth in world production in the magnitude of 3 to 4 per cent, as market and flock indicators in the major producing countries, the United States, the European Community, China and Brazil, signal expansion.

134. With an estimated 2.53 million tons in 1993, world poultry meat exports account for only a small fraction of world production. However, there was strong growth in world exports (up 10 per cent), with the expansion being propelled by the United States and China. The world market is dominated on the export side by three countries, the United States, Brazil and France, which together hold some 64 per cent of the market (excluding France's EC intra trade). The developing countries are net importers of poultry meat; their net imports in 1993 were larger than for other meats.

Chart 13 - Indicative World Market prices for poultry meat



* January - August

135. Since poultry meat is not traded on futures markets or auctions in the main trading countries, price quotations reflecting world market trends are not readily available. Export revenue figures may serve as indicative proxies. Export unit values of the United States showed a downward trend in recent years (compare Chart 13). This trend has been more pronounced in the case of whole broilers than for chicken parts. In the first eight months of 1993, export unit values for chicken parts increased, while whole broiler unit values decreased further. Brazil's export unit values were, consistent with US trends, considerably lower in 1992 than in 1991.

United States

136. The United States has by far the largest poultry industry in the world, contributing roughly one-quarter to world production. Production has increased almost every year since the 1950s and this trend is expected to continue also in 1994. The expansion has been stimulated by strong domestic demand with growth rates of 5 to 6 per cent annually, and booming export demand in recent years. Broiler production, four-fifths of total poultry meat output, is estimated to increase by 5 per cent in 1993. Favourable net returns in production in 1993 and a further increase in the hatchery supply flock indicate that broiler production may expand by another 5 per cent in 1994.

137. The United States is furthermore the dominant player on the world market with about one-third of world exports. About 70 per cent of US poultrymeat exports consist of broiler parts (such as chicken breasts and drumsticks) which, unlike whole broilers, do not benefit from subsidies under the Export Enhancement Program (EEP). Neither do turkey exports. EEP-assisted exports accounted for 1.5 per cent of total poultry meat exports in 1992. In contrast, most, if not all of EC poultrymeat exports are subsidized. As Table 14 shows, US subsidized exports of whole broilers declined in 1992. In the first half of 1993, sales under the EEP declined to 7 thousand tons, 70 per cent of which were destined for the Gulf states.

138. In 1993, US broiler exports grew by about 17 per cent. In particular, exports to Hong Kong, the number one export destination, soared, rising from 113 thousand to 155 thousand tons product weight in the first nine months of 1993 (up 38 per cent). Exports to Poland, Romania, Russia, China and Mexico also strongly increased, while exports to Japan declined. In Hong Kong, US poultry meat suppliers meet with strong competition from the European Community and Brazil; the Japanese market is primarily contested by Thailand, the United States, Brazil, and China. The competitiveness of US exports of broiler parts on the world market is attributable to a number of factors, including a favourable structure of consumer preferences and hence prices on the domestic and certain overseas markets. US consumers favour light chicken meat (breasts) over dark chicken meat (legs), whereas in Japan, for example, drumsticks receive a considerable premium over breasts. In numerous countries, notably in Central and South America, but also in Eastern Europe and South Africa, US poultry has met with import prohibitions or restrictions in 1993. Importing countries have invariably invoked health grounds, dumping or a surge in imports in order to justify these measures. The outlook for 1994 is for further growth of total US poultry meat exports in the magnitude of 5 to 6 per cent.

Table 14 - US Poultry Meat Exports (in '000 m.t. ready-to cook equivalents)

Years	Total Exports	% Change over previous year	Broilers	of which Sales under EEP	Turkey Exports
1991	631		572	19	47
1992	772	22	675	12	78
1993	901	17	789	n.a.	85
1994	951	5.5	832	n.a.	92

Source: GATT, USDA

European Community

139. EC broiler production increased in 1993. Census figures of the hatchery supply flock indicate that the major impulses towards aggregate output expansion in the European Community came from France and the United Kingdom, the number one and number three producers in the European Community. Production in the Netherlands, the EC's number two exporter to third countries, and Germany is likely to decrease. The rapid expansion of EC turkey meat production in recent years has slowed significantly in 1993. Production is forecast to grow by only 1½ to reach 1.3 million tons; for 1994, growth is forecast at 1 per cent.

140. EC exports to third countries have sharply risen since the mid-1980s. By 1993, exports were 9 per cent higher than average exports of 1986-90. France, by far the EC's leading exporter, also accounted for the bulk of the increase in exports (compare Table 15). According to EUROSTAT, the EC's major export destinations in 1992 were: Saudi Arabia (120 thousand tons), Hong Kong (38 thousand tons), United Arab Emirates (34 thousand tons), and South Africa (28 thousand tons). French exports to third countries in the first five months of 1993 were about 33 per cent higher than in 1992, with notable increases recorded in the newly opened market of Yemen, Iran and Saudi Arabia.

However, aggregate EC exports in 1993 are not expected to rise significantly as export subsidies have been cut twice in anticipation of lower feed grain prices.

141. The EC export refund system takes into account the wide range of product differentiation in the poultry meat sector. In addition, export subsidies differ according to destination, analogous to the target approach of the United States EEP. The principal export products of the European Community are frozen whole fowls known as "70 per cent chicken" and "65 per cent chicken". For these two product categories, export refunds were set in April 1993 at: ECU 410 and 450 per ton for export to the Middle East, at ECU 320 and 360 for sales in Eastern Europe, and at ECU 230 otherwise. In July 1993, export refunds were reduced, *inter alia*, to ECU 360 and 400 per ton for the Middle East; A further reduction to ECU 300 and 340 for export to the Middle East followed in October 1993. To put these figures into perspective, average f.o.b. export prices in 1992 for "70 per cent chicken" and "65 per cent chicken" were ECU 970 and ECU 845 per ton, respectively.

Table 15 - EC Poultry Meat Exports to Third Countries (in '000 m.t.)

Year	EC	France
Average 1986 - 1990	397	257
1991	478	290
1992	508??	302
1993	??	

Source: GATT for EC (in ready-to-cook equivalents), EUROSTAT for France (in product weight)

142. Imports of poultry meat constitute a small but considerably larger share of domestic consumption than is the case in the pigmeat sector. Imports relative to consumption have risen steadily to 2,5 per cent in 1992. The major suppliers in 1992 were, according to EUROSTAT, Hungary (41 thousand tons), Brazil (24 thousand tons), Thailand (17 thousand tons), and Poland (16 thousand tons).

143. EC import levies consist of three elements: first, a basis levy equal to difference between world market price and the minimum import price (called sluicegate price); second, a 7 per cent ad valorem duty levied on the sluicegate price; and, third, on low price offers below the sluicegate price, a specific and targeted duty, the so-called additional amount. Together these import duties have the same protective effect as variable levies.[12] In September 1993, the basic levy on frozen boneless chicken cuts, major export items for Thailand and Brazil, was fixed at ECU 890 per ton, with the corresponding sluicegate price being ECU 2,838 per ton. In February 1993, the additional amounts on imports of boneless chicken cuts from Brazil, Thailand and China, were lowered by ECU 200 to ECU 300 per ton; in May 1993, they were reduced to ECU 200, and then doubled to ECU 400 per ton in September 1993. Brazil has subsequently brought its concerns on this matter before the GATT Council.

Brazil

144. Growth in Brazil's poultry meat sector has slowed gradually since 1989 when production expanded by 13 per cent, but it still reached 8 per cent in 1993. Internal demand continued to be strong last year -- in spite of recession, high unemployment and inflation rates of 30 to 34 per cent per month -- as consumers substitute poultry meat for more expensive beef.

145. The phase of high and even double-digit growth rates in the export business which began in 1990, came to a halt last year. Poultry meat exports are estimated to have dropped by 4 per cent in 1993. The export revenue dropped even more as world market prices continued to decline in 1993. Reasons for lower sales in Brazil's overseas markets include Japan's economic malaise, lower exports to Argentina due to an unfavourable exchange rate, and increased export competition from the European Community and the United States. Exports to the European Community are also expected to be lower as a result of, among other factors, higher protection via additional amounts (see above).

[12]Compare document IMC/W/89 issued on 21 June 1993. In Box 4 on page 50, it should have been noted that the difference between the sluicegate price and the world market price is equal to the basic levy.

146. The main share of poultry meat exports are whole broilers (55 per cent of 1992 exports), followed by broiler parts (35 per cent) and turkey meat. Brazil's major export market for whole birds is Saudi Arabia (i.e. roughly one-third of total poultry meat exports). Brazil's main competitor in that market is France. By contrast, US exports of whole broilers to Saudi Arabia totalled only 4 thousand tons in 1992. This is because the United States is more competitive in the production of broiler parts for which there is little demand so far in the Middle East. Brazil's second most important market for poultry meat is Japan, which imported some 65 thousand tons in 1992, almost exclusively chicken parts.

China

147. China's poultry meat production continues to grow at two-digit rates. In recent years there has been a shift in production away from pigmeat to poultry meat and beef. The major share of China's poultry flock consists of layer hens and a relatively large part is waterfowl. While backyard production is still dominant in China, the trend is towards large-scale, industrial broiler production aimed at the rapidly rising domestic market as well as exports. Numerous Japanese and other foreign poultry processors have invested in China, with the capacities tailored to the requirements of Japan's market. Exports in 1993 are estimated to have grown by 23 per cent to a total of 195 thousand tons. China's exports are thus roughly on par with Thailand's. Imports have reached about 100 thousand tons in 1993, partly being re-exports from Hong Kong.

Japan

148. Japan's poultry industry is experiencing a sustained contraction similar to that of the pigmeat sector. Since the early 1980s, the output trend points downward as a consequence of declining competitiveness against imports. Production costs associated with environmental and sanitary regulations have risen, and feed needs to be imported. While demand for poultry meat was rising in previous years, consumption in 1993 was stable as a result of the recession and competition from cheaper and more prestigious beef. This development has also affected imports: given ample stocks, imports in 1993 decreased somewhat compared to previous years. However, given the trends in domestic demand and competitiveness of this sector, Japan's poultry meat imports are forecast to rise in the medium term.

Eastern Europe

149. Before Hungary embarked on the transition towards a market economy, the country was one of the world's major poultry exporters. Most exports were destined for the former Soviet Union, which took about 130 thousand tons annually. By 1991, total exports had declined to 73 thousand tons while exports to the CIS decreased to 5 thousand tons. In 1992, Hungary's exports halved to 37 thousand tons. With the collapse of the Soviet market, the industry was left with huge overcapacities. Capacity utilization is currently about one-third, with many processing plants facing bankruptcy.

150. In the first half of 1993, the poultry industry's production grew by about 10 per cent compared to 1992, unlike the meat industry which experienced a 25 per cent output contraction in the same period. Hungary's major export destination in the first eight months of 1993 was Germany, which took 11 thousand tons, followed by Italy.

151. In the poultry sector, the Interim Agreements between Hungary, Poland and the Czech and Slovak Republics, and the European Community provided for preferential tariff quotas in 1993 which totalled 43 thousand tons of chicken meat at a levy reduction of 40 per cent, and 33 thousand tons of duck and goose meat at a levy reduction of 50 per cent.

152. Russia's poultry meat purchases outside the former Soviet Union, which were in the magnitude of 200 thousand tons in 1989-90, reportedly took a further substantial drop in the first half of 1993. Imports totalled only 4 thousand tons, 87 per cent less than in the same period of 1992. By August 1993, US exports to Russia had risen to 23 thousand tons.

Table 16 - Poultry Meat Situation in Selected Countries ('000 metric tons ready-to-cook equivalents)

		1992	1993 Est.	1994 Forec.	% Change 1992/93	% Change 1993/94
Production	**World ***	42,600	44,,200	n.a.	3.8	n.a.
	US	11,885	12,390	n.a.	4.2	n.a.
	China **	4,560	5,100	5,600	11.8	9.8
	EC	6,963	7,032	7,122	1.0	1.3
	Brazil**	2,932	3,165	3,400	7.9	7.4
Exports	**World ****	2,307	2,533	2,720	9.8	7.4
	US **	772	901	951	16.7	5.4
	EC	519	567	n.a.	9.2	n.a.
	Brazil**	390	375	410	-3.8??	9.3
	China **	158	195	220	23.4	12.8
Imports	Japan	394	385	n.a.	-2.3	n.a.
	Hong Kong **	352	360	361	2.3	0.3
	Saudi Arabia**	250	253	252	1.2	- 0.4
Consumption	US	11,080	11,456	n.a.	3.4	n.a.
	EC	6,588	6,610	6,762	0.3	2.3
	Brazil**	2,542	2,790	3,075	9.8	10.2
	China **	1,963	2,235	2,475	13.8	10.7
	Japan	1,749	1,752	n.a.	0.2	n.a.
Per-Capita Consumption (kg)	Singapore **	133.6	139.1	143.4	4.1	3.1
	US	43.3	44.3	n.a.	2.3	n.a.
	Israel **	41.1	41.1	41.2	0.0	0.2
	Saudi Arabia**	32.0	32.0	32.3	0.0	0.9

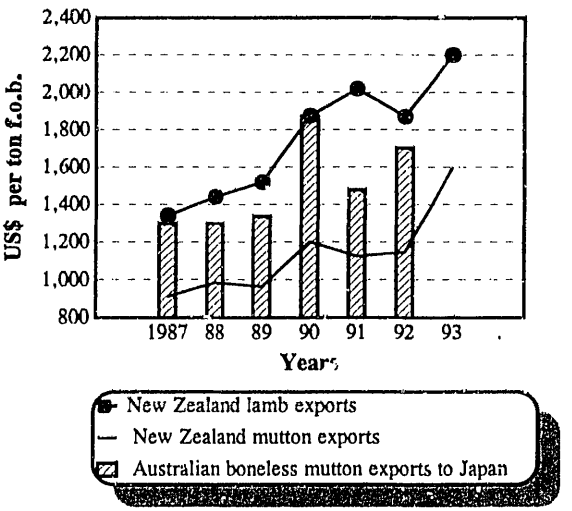
Source: GATT; for non-participating countries - * FAO, ** USDA

The Sheepmeat Market

World Trends

153. The FAO estimates world sheepmeat and goat meat production to remain stable at 9.8 million tons in 1993. In China, which ranks number one in the world, production has expanded by a further 8 per cent, whereas EC production has stabilized at around 1.2 million tons. The European Community is the world's largest (net) importer and consumer and is only slightly surpassed by China in terms of production. In China, Australia and other producing countries, sheep production systems are more wool-oriented than in the European Community, a fact which is reflected in much larger flock sizes. New Zealand's production in 1993 has suffered from the exceptionally harsh winter in 1992 which caused large sheep losses. In Australia sheepmeat output remained unchanged, despite historically low world market prices for wool. World exports have been 5 per cent lower in 1993, which was largely the result of a decline in New Zealand exports. World sheepmeat prices in 1993, on the other hand, have been exceptionally favourable for New Zealand and Australia, the two dominant exporters on the world market (see Chart 14). In fact, New Zealand was unable to meet overseas demand. Nonetheless, higher prices more than offset lower export volumes.

Chart 14 - World Market prices for sheepmeat



European Community

154. In 1992, EC sheepmeat production had fallen by 3 per cent to 1.2 million tons. This was largely due to a drop in production in the UK following the elimination of the variable premium (a subsidy) by the end 1991 and de-stocking in the new German Länder following re-unification. In 1993, EC production is estimated to have remained roughly stable at around 7.0 million tons. For 1994, the European Community forecasts sheepmeat production at 1993 levels or slightly higher. The trend towards stabilization of EC sheepmeat production is attributed, inter alia, to the effects of the budgetary stabilizer mechanism and the introduction of individual producer quotas in the wake of the CAP reform (see Box 7).

155. In 1993, average EC prices fell by about 7 per cent to ECU 258 per 100 kg of carcass lamb, although there was considerable variation between member prices. Despite the drop in prices in ECU, prices in national currency in the United Kingdom and Ireland rose sharply as a result of devaluations against the ECU. By contrast, prices in France and Italy were exceptionally weak. Medium term price expectations in the sheepmeat sector point downward, as price pressure will be exerted from pigmeat and poultry meat markets due to lower feed grain costs resulting from the CAP reform.

156. EC intra-trade of sheepmeat is estimated to have increased from 265 thousand to 300 thousand tons in 1993. The expansion in trade was stimulated by repeated sterling and punt devaluations. France accounts for about 60 per cent of EC member states imports. Trade also accounted for price pressure on the markets of other member states, notably France.

157. EC imports from third countries in 1993 are estimated to have remained stable at 260 thousand tons. There has been a shift of New Zealand's shipments, by far the major supplier, away from the United Kingdom to France and non-traditional markets in Greece and Belgium. Consumption is stable in the European Community, and in spite of weak prices in some member States, there are indications of a supply-consumption gap. Per-capita consumption of sheepmeat varies widely in the European Community. In 1992, the EC average per capita consumption of 4.2 kg. reflected levels of about 1 kg. in Denmark and the Netherlands, compared to 7-8 kgs. in the United Kingdom and Ireland, and 14 kgs. in Greece.

Box 7 - The European Community's Sheepmeat Regime

In the late 1970s, a dispute between France and the Irish Republic over variable import levies maintained by France, which came to be known as the 'lamb war', gave rise to the establishment of a common market regime for sheepmeat and goatmeat. It took effect on 20 October 1980 (Council Regulation 1837/80). Eventually, with self-sufficiency in sheepmeat rising from 74 per cent in 1980 to 81 per cent in 1989, budgetary constraints stimulated the first reform of the regime in 1989 (Council Regulation 3013/89). The second reform was part of the reform package of the Common Agricultural Policy in June 1992 (Council Regulation 2069/92). The changes of the market regime came into effect on 1 January 1993, the regular beginning of the marketing year for sheepmeat.

Domestic support. The fundamental measures of domestic support represent a headage premium for eligible ewes, the so-called annual ewe premium, and private storage aid:
a) Annual ewe premium. Since 1993, a single EC-wide ewe premium applies, except in the Irish Republic and Northern Ireland. The annual ewe premium is designed to offset a perceived income loss by farmers engaged in sheepmeat production. The income loss is determined as the difference between the basic price (i.e. a 'political' price as part of the EC's annual farm price package) and the representative EC market price for lamb. To arrive at the premium amount, the price difference is then multiplied by a coefficient which reflects the proportion of the Community's annual meat production from heavy lambs relative to ewes (in c.w.e). Heavy lambs are defined as those lambs which are derived from flocks specialized in sheep*meat* production, the predominant production system in the European Community. For light lambs, the offspring of milk-oriented production systems, the annual ewe premium is 20 per cent lower than for heavy lambs. Furthermore, the 1989 Regulation provides that the ewe premium be paid "at the full rate within the limit of 1,000 animals per producer in the less-favoured areas" and "within the limit of 500 animals per producer in other areas". Beyond these ceilings, premiums payable are fixed at 50 per cent of the full premiums. The annual ewe premium is further linked to the EC's budgetary stabilizer mechanism. In 1989, the reference flock was fixed at 63.4 million ewes. It was stipulated that the basic price be reduced by 1 per cent for each 1 per cent increase of ewe number above the threshold level. For 1993, this provision meant a 7 per cent cut in the reference price. The preliminary annual ewe premium for 1993 is thus calculated as follows:

(Stabilizer * Basis Price)	minus	Weighted Reference Price	=	Income Loss	==>	Income Loss *	Coefficient	=	Ewe Premium
(0.93 * ECU 418.5)	-	ECU 263.6	=	ECU 125.6	==>	ECU 124.6 *	0.16	=	ECU 20.1

An additional ewe premium is payable to producers in less-favoured areas whose preliminary amount for 1993 is ECU 5.5. The CAP reform has left the producer ceilings for subsidization (i.e. 1000 and 500 animals) unchanged. However, two new support ceilings, a producer quota and a national quota, have been introduced in order to curb budgetary expenditure: individual producer quotas were fixed at the number of animals eligible for premiums at the, somewhat adjusted, 1991 level; the national premium quota was determined on the basis of a reference year production, to be selected among 1989, 1990 or 1991. The payment of the ewe premium is not subject to any stocking density criteria. However, the number of ewes for which a premium is claimed is relevant for determining stock density levels when producers claim the special beef premium and suckler cow premium. Furthermore, restrictions were imposed with respect to the eligibility of ewes and transfer of rent (premium rights), and national reserves were to be established so as to accommodate, inter alia, market entrants.
b) Private storage aid. Intervention measures remain unchanged after the CAP reform and take the form of private storage aid for carcass lamb. Storage is triggered when the market price declines beyond certain thresholds, expressed as a percentage of the seasonally adjusted basic price.

Agra Europe reports that the Community's expenditure in the sheep and goatmeat sector increased from ECU 1.749 billion in 1992 to ECU 1.8 billion in 1993, with sheep numbers totalling 99 million and ewe numbers 72 million head.

Border measures. The major distinguishing features of the sheepmeat régime, as compared to the market regimes for beef and veal, are:
a) Export subsidies. Although there is a provision for export refunds, to date no export subsidies have ever been applied.
b) Voluntary Export Restraint agreements (VERs). Virtually all imports are governed by concessionary import schemes, in particular VERs. Imports are, theoretically, subject to variable import levies, which would be calculated as the difference between the c.i.f. price and the (seasonally adjusted) basic price. However, the duty on fresh/chilled/frozen carcasses is bound at the much lower rate of 20 per cent under GATT. Hence, since 1980 VERs have been negotiated whose customs duty rate has subsequently been reduced to zero. The 1993 quotas totalled 256 thousand tons of sheepmeat and the carcass equivalent of 19 thousand tons of live sheep. In addition, the EC maintains preferential, though small, import quotas under the association agreements with Eastern European countries.

Australia

158. Australia's sheepmeat sector is driven by developments in the wool market. Since the collapse of world wool prices in 1989/90, Australia's is in a protracted flock liquidation phase accompanied by market exits of sheep farmers. Low producer prices for sheep and prime lambs, and widespread drought in 1991/92, exacerbated the reduction in sheep numbers. After having reached a peak of 174 million head in 1990 (March census), the flock size dropped to 148 million in 1992 and 139 million in 1993. The rate of culling is forecast to continue in 1993/94. The major factors that have a bearing on the prospects of Australia's sheepmeat industry are wool prices, and export demand, live sheep exports and domestic demand.

159. *Wool prices*. Australian wool growers produce some 30 per cent of total world wool production and supply some 70 per cent of the world's apparel wool. Formerly sheltered from price fluctuations by means of floor prices, wool growers have been exposed to extreme price pressure since 1989/90. The discontinuation of the so-called Reserve Price Scheme in February 1991 has left the Australian Wool Realisation Commission (AWRC) with a 1993 wool stockpile of 820 thousand tons, which is almost as large as Australia's wool production expected for 1993/94. The stock disposal is expected to exert price pressure in the years to come, even if economic recovery in the EC and Japan leads to increased wool demand. In April 1993, the AWRC indicator stood at the historically low level of A$4.00 per kg; the former floor price was A$7.00. The AWRC market indicator is a weighted average of auction prices for fifteen wool grades. By November 1993, the AWRC indicator had not recovered beyond A$5.00.

Table 17 - Australian Sheepmeat Sector ('000 m.t. c.w.e.)

Australia	1991	1992	1993 Est.
PRODUCTION			
Total Sheepmeat	669	650	669
Mutton	382	387	370
Lamb	274	275	269
EXPORTS			
Total Sheepmeat	304	297	295
Mutton	264	262	230
Lamb	42	41	52
Live Sheep (million head)	4.04	4.43	5.20

Note: Production and export figures for mutton and lamb refer to year ended in June (Source: Australian Meat & Livestock Corp.).

160. *Export demand*. Australia's mutton production is strongly export-oriented mutton, being the complementary output of wool. Roughly two-thirds of the carcass mutton is destined for export. In 1991/92, exports of mutton were at a historically very high level as a consequence of the wool price-induced increase in slaughterings and high demand from Middle East countries. In the 1992/93 marketing year (ended in June), mutton exports decreased as the result of higher domestic mutton prices and hence a loss in competitiveness in overseas markets. In the main traditional markets, the Middle East and Japan, Australian mutton faces strong competition from EC beef exports and US poultry exports; and in Japan also from North American pork. Exports to the former Soviet Union were hampered by EC beef exports and food aid deliveries as well as lack of hard currency. They were down from 34 thousand tons product weight in 1991/92 to negligible levels in 1992/93. Exports to the European Community are constrained to 17.5 thousand tons c.w.e. under a VER agreement. In the United States, the Meat Import Law (MIL) covers also mutton but not lamb. In 1992, Australian mutton exports amounted to 10 thousand tons but are expected to decline to 3 thousand tons in 1993.

161. Lamb exports rose substantially in 1992/93. In the United States, Australia promotes lamb as a branded product under the Fresh Australian Range Lamb programme (FARL), i.e. chilled, airlifted shipments with the guarantee of not being more than 72 hours from processing. One of the industry's

objectives is to increase the export share of prime lamb from the current level of 15 per cent to 20 per cent by 1996.

162. *Live sheep exports*. The Australian live sheep trade to the Middle East dates back to the 1950s and was originally stimulated by a lack of refrigeration in some of the countries. Moreover, this meat was the cheapest type of red meat available and therefore in high demand by the lower income strata (e.g. the expatriate workers in Saudi Arabia and the neighbouring Gulf states). Live sheep exports are still predominantly old sheep but more recently there has been a trend in demand towards younger sheep. Live sheep exports peaked in 1983 at 7.3 million head and thereafter stagnated at around 7 million head until 1988. In the summer of 1989, several shipments to Saudi Arabia, Australia's foremost market for live sheep at that time, were rejected because of Saudi claims that the flocks carried diseases. Eventually all exports to Saudi Arabia were discontinued and have not resumed since. This brought total live sheep exports down to about 4 million head by 1991. In 1993, exports are expected to recover to 5.2 million head, stimulated by strong demand from the United Arab Emirates. This figure, 5.2 million head, amounts to some 110 thousand tons of sheepmeat if converted to a carcass weight equivalent based on average Australian slaughter weights. This volume compares to carcass mutton exports of 230 thousand tons in 1992/93 (live sheep exports are not included in sheepmeat export volumes).

163. *Domestic demand*. Australia ranks second in the world in terms of per capita meat consumption and is only surpassed by the United States. Income and relative prices have been the major determinants for the absolute level of meat consumption and the distribution among types of meat. The domestic market for both sheepmeet and beef is under strong competitive pressure from poultry meat, which is almost exclusively produced for domestic consumption. It is forecast that, as (relative) beef and sheepmeat prices rise as a result of declining production, consumers will increasingly turn to poultry meat and pigmeat. Moreover, sheepmeat faces an image problem: consumers, concerned with food waste (fat and bones), have turned away from sheepmeat. Thus, per capita consumption of sheepmeat has declined from 23 kgs. in 1989 to 20.7 kgs. in 1993.

New Zealand

164. Sheep numbers continued the downward trend which began in 1984 with the elimination of the Supplementary Minimum Prices. In the June 1993 census, the sheep flock totalled 50.3 million head, 20 million less than ten years ago. In the 1992/93 marketing year (ending in September), large losses of livestock were recorded during a period of major snowfalls in winter 1992. While the sheep flock declined by 4 per cent, the build-up of the dairy and beef herds continued, reflecting increasing farmgate prices for milkfat and high beef prices. Nonetheless, 1992/93 has been an exceptionally favourable year for New Zealand's sheepmeat sector, evidenced by the fact that the highly export-oriented industry was unable to meet export demand.

165. The medium term outlook is for a further contraction of New Zealand sheepmeat production and exports. Exports are forecast to decrease to 360 thousand tons by 1996. While the pastoral sector has shrunk by about 820 thousand hectares in the past decade, there has been, in addition, a steady redistribution of land from sheep, cattle, goat and crop usage towards dairying and other holdings - a trend which is forecast to continue (see also Box 5, page 35).

166. Adverse weather conditions in spring 1992 led to a 9 per cent lower *lamb* crop, entailing lower slaughter production. Lamb production was down from 400 thousand tons in the 1991/92 marketing year to 347 thousand tons in 1992/93. More than 90 per cent of New Zealand's lamb production is destined for export. Given lower availabilities, exports were considerably lower, declining by 12 per cent in the period October 1992 to June 1993. Lower supplies for slaughter, strong export demand and higher slaughter weights, in turn, led to export prices (at farmgate) rising by 41 per cent to US$40

per head of lamb, the highest value in the past ten years. Export values (per ton f.o.b.) in 1992/92 were US$4,076 for lamb (up 17 per cent) and US$ 2,960 for mutton (up 39 per cent). There has been a marked shift in production from prime to lean grades since 1975/76. The emphasis on lean, heavy lambs is expected to continue, with the average weight of lambs expected to rise further from its current record level of 14 kgs. *Mutton* slaughterings for exports were boosted during the past decade by the run-down of sheep numbers. In 1992/93 season, mutton production for export declined much less than anticipated, partly because mutton prices for export were very favourable.

167. New Zealand accounts for about three-quarters of the EC's sheepmeat imports, which represents about 15 per cent of the EC sheepmeat consumption. In 1993, export volumes were restricted to 206 thousand tons of sheepmeat including 12 thousand tons of chilled lamb, under the levy-free Voluntary Export Restraint agreement. Despite lower overall exports, New Zealand has nonetheless fully utilized its import "quota" under the VER with the EC. As in past years, New Zealand's major EC customer has been the UK with shipments estimated at 110 thousand tons in 1993. Exports to Iran, New Zealand's second major customer in 1992, have dropped from 61 thousand tons in 1992 to zero in 1993. The North American import market, although relatively small, is strongly contested between New Zealand and Australia.

168. New Zealand's trade in *live sheep* amounts to one-third of Australia's exports. Australia exports mainly older sheep, while in the past New Zealand exported predominantly lambs. In 1992/93, New Zealand exported some 1.34 million head of live lamb and sheep, about the same number as in 1991/92. However, the live lamb trade has halved to 420 thousand tons. The shift from live lamb to live mutton trade reflects the strong prices for slaughter lambs.

China

169. In 1992, China overtook the European Community as the number one sheepmeat and goatmeat producer in the world. Production continued to expand rapidly in 1993 but the pace of expansion was smaller than in the poultry sector (up 8 per cent). The expansion has been encouraged, inter alia, by higher prices for sheepmeat than for other red meats. USDA forecast production in 1994 at 1.4 million tons.

170. Apart from being the major sheepmeat producer in the world, China exerts an influence on production decisions in other countries as one of the major *wool* importers. About 12 per cent of Australia's wool exports in 1991/92 were destined for China. In bilateral negotiations, China has recently agreed to reduce import tariffs on wool tops to 15 per cent.

Table 18 - Sheepmeat Situation in Selected Countries
('000 metric tons incl. goatmeat, carcass weight equivalent)

		1992	1993 Est.	1994 Forec.	% Change 1992/93	% Change 1993/94
Production	**World ***	9,800	9,800	n.a.	0	n.a.
	China**	1,250	1,350	1,400	8.0	3.7
	EC	1,200	1,202	1,209	0.2	0.6
	Australia	651	669	n.a.	2.8	n.a.
	India**	595	607	613	2.0	1.0
	New Zealand	541	514	490	- 5.0	- 4.7
Exports	**World ***	762	724	n.a	- 5.0	n.a.
	New Zealand	460	403	400	- 12.4	- 0.7
	Australia	297	295	n.a.	- 0.7	n.a.
Imports	EC	262	260	n.a.	-0.8	n.a.
	Japan	114	103	n.a.	-9.6	n.a.
	Russia **	46	49	48	6.5	- 2.0
Consumption	EC	1,430	1,390	1,406	-2.8	1.2
	China **	1,247	1,346	1,395	7.9	3.6
	Australia	352	369	n.a.	4.8	n.a.
	Turkey **	365	370	375	1.7	1.4
	Russia **	366	354	343	- 3.3	- 3.1
Per-Capita Consumption (kg)	New Zealand	n.a.	29	29	n.a.	0.0
	Australia	20	20.7	n.a.	3.5	n.a.
	Saudi Arabia**	18.2	18.3	n.a.	0.5	n.a.

Source: GATT; for non-participating countries - * FAO, ** USDA