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## Australia

## Livestock and Products

## Semi Annual

## 2005

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**Report Highlights:**

The Australian beef industry is expected to continue it's rebuilding phase in CY 2005, following severe drought and partial herd liquidation that began in 2002. Beef production and exports are forecast to grow only slightly in 2005, with exports to Japan expected to remain at record levels. Australian pig meat production is expected to fall in 2005 inventories rise. Imports of pig meat are forecast to reach record levels in 2005, with U.S. product expected to take a greater share of the import market.

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Includes PSD Changes: Yes  
Includes Trade Matrix: Yes  
Semi-Annual Report  
Canberra [AS1]  
[AS]

**Table of Contents**

<b>SECTION ONE: SITUATION AND OUTLOOK.....</b>	<b>3</b>
<b>SECTION TWO: STATISTICAL TABLES .....</b>	<b>4</b>
PS&D TABLES .....	4
TRADE MATRICES .....	8
<b>SECTION THREE: NARRATIVE ON SUPPLY AND DEMAND, POLICY &amp; MARKETING ..</b>	<b>11</b>
CATTLE .....	11
Inventory .....	11
Cattle on Feed.....	12
Live Exports.....	12
Slaughter .....	13
Production .....	14
Consumption .....	14
Trade.....	14
Prices .....	15
Policy .....	15
SWINE .....	18
Inventory .....	18
Slaughter.....	18
Production.....	19
Trade.....	20
Prices .....	20

## SECTION ONE: SITUATION AND OUTLOOK

The Australian beef industry is expected to continue to rebuild cattle numbers in calendar year (CY) 2005, a process that began in the second half of 2004. High cattle prices and excellent seasonal conditions in the lead-up to 2005 have greatly improved industry confidence. This cattle herd rebuilding phase, which began toward the end of 2004, follows a partial herd liquidation due to severe drought conditions that began in 2002 and continued into the first half of 2004.

Closing cattle inventory is forecast to increase in 2005, while slaughter numbers and beef and veal production are forecast to rise slightly. Increased domestic prices due to improved export demand are likely to maintain slaughter at historically high levels while allowing inventory to increase slightly. Furthermore, improved seasonal conditions are likely to improve herd fertility and result in a larger nominal calf crop, facilitating incremental growth in both slaughter and inventory.

Live cattle exports are forecast to decline in 2005, as strong beef export demand reduces supplies of cattle suitable for live export and increases supplies of cattle suitable for slaughter. Live exports are forecast at historically low levels, in-line with industry projections.

Continued strong export demand expected for Australian beef and veal in 2005 should see export levels rising slightly, despite the Australian dollar remaining at relatively high levels. The absence of U.S. beef in the Japanese and Korean markets is driving strong export demand, although industry sources believe that if U.S. beef were to re-enter Japan in 2005, Australian exports to this destination are not likely to fall significantly from the current record-high levels. For consistency, Post forecasts for 2005 assume that U.S. beef will not enter Japan in 2005. If this changes, updates will be provided.

The Australian pork industry remains under significant financial pressure due to high grain prices. Furthermore, the high value of the Australian dollar has decreased the price competitiveness of exports while increasing that of imports. Imports are forecast at near-record levels in CY 2005, with the U.S. share expected to increase about 10-fold over the minimal levels achieved upon gaining access in the last quarter of 2004. Longer term, imports from the United States are expected to rise steadily, perhaps following the growth trends established by Canada and Denmark following their entry into the market in the 1990s.

Australian pig meat production is forecast to decrease in CY 2005, in-line with falling slaughter levels. Closing inventory in 2005 is forecast to increase, reversing the trend of partial herd liquidation that occurred after the drought began in 2002. Exports are forecast to increase to levels more reflective of the near-term average, as is indicated by monthly export figures that show steady growth in the second half of 2004. This is likely to be facilitated by higher import levels and stronger export demand.

Recent A\$/US\$ exchange rates: 2002, US\$0.56; 2003, US\$0.65; 2004, US\$0.74; current exchange rate is US\$0.77.

## SECTION TWO: STATISTICAL TABLES

## PS&amp;D TABLES

PSD Table							
Animal Numbers, Cattle							
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2003		01/2004		01/2005	MM/YYYY
Total Cattle Beg. Stks	27479	27870	26600	26640	26600	27147	(1000 HD)
Dairy Cows Beg. Stks	2056	2050	2063	2028	2100	2041	(1000 HD)
Beef Cows Beg. Stocks	12000	12245	12250	12300	12500	12500	(1000 HD)
Production (Calf Crop)	9174	8738	9404	9404	9700	9933	(1000 HD)
Intra EC Imports	0	0	0	0	0	0	(1000 HD)
Total Imports	0	0	0	0	0	0	(1000 HD)
TOTAL Imports	0	0	0	0	0	0	(1000 HD)
TOTAL SUPPLY	36653	36608	36004	36044	36300	37080	(1000 HD)
Intra EC Exports	0	0	0	0	0	0	(1000 HD)
Total Exports	774	689	586	635	575	580	(1000 HD)
TOTAL Exports	774	689	586	635	575	580	(1000 HD)
Cow Slaughter	3952	3952	3800	3781	3750	3700	(1000 HD)
Calf Slaughter	1146	1146	800	960	700	985	(1000 HD)
Other Slaughter	4131	4131	4168	4112	4200	4315	(1000 HD)
Total Slaughter	9229	9229	8768	8853	8650	9000	(1000 HD)
Loss	50	50	50	50	50	50	(1000 HD)
Ending Inventories	26600	26640	26600	27147	27025	27500	(1000 HD)
TOTAL DISTRIBUTION	36653	36608	36004	36685	36300	37130	(1000 HD)
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	(1000 HD)
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 HD)

PSD Table Meat, Beef and Veal							
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2003		01/2004		01/2005	MM/YYYY
Slaughter (Reference)	9229	9229	8768	8853	8650	9000	(1000 HD)
Beginning Stocks	70	70	100	100	50	87	(1000 MT CWE)
Production	2073	2073	2005	2127	2000	2150	(1000 MT CWE)
Intra EC Imports	0	0	0	0	0	0	(1000 MT CWE)
Total Imports	7	1	1	6	1	7	(1000 MT CWE)
TOTAL Imports	7	1	1	6	1	7	(1000 MT CWE)
TOTAL SUPPLY	2150	2144	2106	2233	2051	2244	(1000 MT CWE)
Intra EC Exports	0	0	0	0	0	0	(1000 MT CWE)
Total Exports	1264	1264	1300	1358	1300	1380	(1000 MT CWE)
TOTAL Exports	1264	1264	1300	1358	1300	1380	(1000 MT CWE)
Human Dom. Consumption	786	780	756	788	711	794	(1000 MT CWE)
Other Use, Losses	0	0	0	0	0	0	(1000 MT CWE)
TOTAL Dom. Consumption	786	780	756	788	711	794	(1000 MT CWE)
Ending Stocks	100	100	50	87	40	70	(1000 MT CWE)
TOTAL DISTRIBUTION	2150	2144	2106	2233	2051	2244	(1000 MT CWE)
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	(1000 MT CWE)
Calendar Yr. Exp. to U.S.	541	538	541	528	541	537	(1000 MT CWE)

PSD Table Animal Numbers, Swine							
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2003		01/2004		01/2005	MM/YYYY
TOTAL Beginning Stocks	2940	2940	2658	2658	2600	2533	(1000 HD)
Sow Beginning Stocks	353	353	340	340	350	345	(1000 HD)
Production (Pig Crop)	5413	5413	5200	5327	5400	5369	(1000 HD)
Intra EC Imports	0	0	0	0	0	0	(1000 HD)
Total Imports	0	0	0	0	0	0	(1000 HD)
TOTAL Imports	0	0	0	0	0	0	(1000 HD)
TOTAL SUPPLY	8353	8353	7858	7985	8000	7902	(1000 HD)
Intra EC Exports	0	0	0	0	0	0	(1000 HD)
Total Exports	2	2	2	2	2	2	(1000 HD)
TOTAL Exports	2	2	2	2	2	2	(1000 HD)
Sow Slaughter	0	0	0	0	0	0	(1000 HD)
OTHER SLAUGHTER	5693	5723	5256	5450	5098	5300	(1000 HD)
Total Slaughter	5693	5723	5256	5450	5098	5300	(1000 HD)
Loss	0	0	0	0	0	0	(1000 HD)
Ending Inventories	2658	2658	2600	2533	2900	2600	(1000 HD)
TOTAL DISTRIBUTION	8353	8383	7858	7985	8000	7902	(1000 HD)
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	(1000 HD)
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 HD)

PSD Table Meat, Swine							
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2003		01/2004		01/2005	MM/YYYY
Slaughter (Reference)	5693	5723	5256	5450	5098	5300	(1000 HD)
Beginning Stocks	10	10	12	12	10	10	(1000 MT CWE)
Production	420	419	395	399	385	385	(1000 MT CWE)
Intra EC Imports	0	0	0	0	0	0	(1000 MT CWE)
Total Imports	67	67	75	70	80	80	(1000 MT CWE)
TOTAL Imports	67	67	75	70	80	80	(1000 MT CWE)
TOTAL SUPPLY	497	496	482	481	475	475	(1000 MT CWE)
Intra EC Exports	0	0	0	0	0	0	(1000 MT CWE)
Total Exports	74	72	60	58	60	65	(1000 MT CWE)
TOTAL Exports	74	72	60	58	60	65	(1000 MT CWE)
Human Dom. Consumption	411	412	412	413	411	405	(1000 MT CWE)
Other Use, Losses	0	0	0	0	0	0	(1000 MT CWE)
TOTAL Dom. Consumption	411	412	412	413	411	405	(1000 MT CWE)
Ending Stocks	12	12	10	10	4	5	(1000 MT CWE)
TOTAL DISTRIBUTION	497	496	482	481	475	475	(1000 MT CWE)
Calendar Yr. Imp. from U.S.	0	0	10	1	0	10	(1000 MT CWE)
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 MT CWE)

## TRADE MATRICES

Cattle Imports			
	2003	2004 (e)	2005 (f)
Origin	Quantity*	Quantity*	Quantity*
United States	23	0	0
Others	0	0	0
<b>TOTAL</b>	<b>23</b>	<b>0</b>	<b>0</b>

(e) estimate based on partial year data; (f) forecast \*Shipped weight (MT)

Cattle Exports			
	2003	2004 (e)	2005 (f)
Origin	Quantity*	Quantity*	Quantity*
Indonesia	387160	321343	292422
Philippines	96016	79693	72521
Malaysia	87955	73003	66433
China	44138	36635	33338
Israel	43213	35867	32639
Jordan	23065	19145	17422
Japan	22034	18288	16642
Brunei	19796	16431	14952
Saudi Arabia	15969	13254	12061
Egypt	7583	6294	5728
United States	0	0	0
Others	0	22673	20632
<b>TOTAL</b>	<b>774248</b>	<b>642626</b>	<b>584790</b>

(e) estimate based on partial year data; (f) forecast \*Shipped weight (MT)

Beef & Veal Imports			
	2003	2004 (e)	2005 (f)
Origin	Quantity*	Quantity*	Quantity*
New Zealand	3598	5435	6000
United States	465	360	0
Lebanon	112	160	28
Brazil	69	98	300
Croatia	39	58	65
Fiji	39	56	50
Italy	19	28	80
Jordan	19	27	25
Philippines	7	10	15
Taiwan	6	8	7
Thailand	3	4	6
Others	0	0	0
<b>TOTAL</b>	<b>4376</b>	<b>6244</b>	<b>6576</b>

(e) estimate based on partial year data; (f) forecast \*Shipped weight (MT)



<b>Beef &amp; Veal Exports</b>			
	<b>2003</b>	<b>2004(e)</b>	<b>2005(f)</b>
<b>Origin</b>	<b>Quantity*</b>	<b>Quantity*</b>	<b>Quantity*</b>
United States	375187	373242	379214
Japan	288860	419898	426617
South Korea	67640	99577	101170
Taiwan	31659	28231	28682
Canada	30100	7953	8080
Indonesia	16960	7606	7727
Philippines	10285	2210	2245
Malaysia	9696	5117	5199
New Zealand	7167	2428	2467
<b>Others</b>	<b>48968</b>	<b>28913</b>	<b>29375</b>
<b>TOTAL</b>	<b>886522</b>	<b>975174</b>	<b>990777</b>

(e) estimate based on partial year data; (f) forecast \*Shipped weight (MT)

<b>Swine Exports</b>			
	<b>2003</b>	<b>2004(e)</b>	<b>2005(f)</b>
<b>Origin</b>	<b>Quantity*</b>	<b>Quantity*</b>	<b>Quantity*</b>
United States	1350	0	300
Malaysia	220	0	250
Saudi Arabia	124	0	0
Vietnam	44	0	50
Indonesia	33	0	40
Japan	0	30	0
Solomon Islands	0	20	10
Philippines	0	1150	1000
<b>Others</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>TOTAL</b>	<b>1771</b>	<b>1200</b>	<b>1650</b>

(e) estimate based on partial year data; (f) forecast \*Shipped weight (MT)

<b>Pork Imports</b>				
	<b>2003</b>		<b>2004(e)</b>	<b>2005(f)</b>
<b>Origin</b>	<b>Quantity*</b>	<b>Origin</b>	<b>Quantity*</b>	<b>Quantity*</b>
Canada	32399	Canada	37844	38327
Denmark	20394	Denmark	23636	25087
Netherlands	723	United States	1000	8000
China	21	Netherlands	856	978
Philippines	4	China	25	29
Taiwan	3	Philippines	5	6
		Taiwan	4	5
<b>Others</b>	<b>1</b>	<b>Others</b>	<b>0</b>	<b>0</b>
<b>TOTAL</b>	<b>53545</b>	<b>TOTAL</b>	<b>63370</b>	<b>72432</b>

(e) estimate based on partial year data; (f) forecast \*Shipped weight (MT)

<b>Pork Exports</b>			
	<b>2003</b>	<b>2004 (e)</b>	<b>2005 (f)</b>
<b>Origin</b>	<b>Quantity*</b>	<b>Quantity*</b>	<b>Quantity*</b>
Singapore	26883	21189	23732
Japan	13371	10539	11804
New Zealand	9376	7390	8277
Philippines	2831	2231	2499
Taiwan	1631	1286	1440
South Korea	1419	1118	1252
Hong Kong	1077	848	950
South Africa	543	428	479
China	326	257	288
<b>Others</b>	<b>1914</b>	<b>1690</b>	<b>1691</b>
<b>TOTAL</b>	<b>59371</b>	<b>46796</b>	<b>52412</b>

(e) estimate based on partial year data; (f) forecast \*Shipped weight (MT)

## SECTION THREE: NARRATIVE ON SUPPLY AND DEMAND, POLICY & MARKETING

### CATTLE

#### Inventory

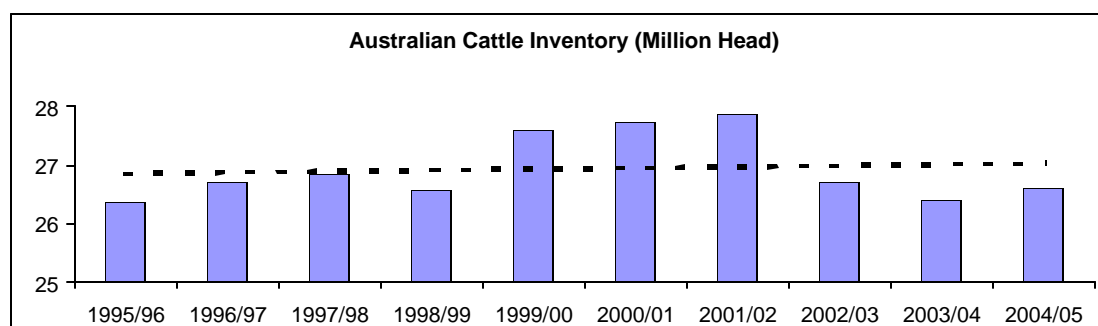
Australia's cattle inventory is expected to rise just over one percent in calendar year (CY) 2005, with closing-year cattle numbers forecast at 27.5 million head. This figure is slightly higher than Post's previous forecast of 27.1 million head (GAIN Report #AS4024), and is in-line with current industry forecasts. Strong beef demand and record high cattle prices provided a greater incentive for rebuilding herds than was previously anticipated. Excellent rainfall in many cattle producing areas in the lead-up to 2005 has also resulted in improved pasture conditions, allowing expanded cattle numbers. Despite a rise in inventory, cattle numbers are forecast to remain below the record of 27.9 million head achieved prior to the drought.

The forecast increase in closing inventory for CY 2005 represents a return to a herd rebuilding phase, following a period of severe drought and subsequent partial herd liquidation. Industry growth over the medium term is expected to be similar to that experienced in the lead-up to the drought.

Post has revised the closing inventory for CY 2004 to 27.1 million head, up significantly from Post's previous figure of 26.6 million head. Heavy rainfall in the second half of 2004 allowed many cattle producers to increase inventory in a year that started with a continuation of a severe drought. Despite slightly higher than expected slaughter levels, a larger calf crop and lower mortality rates are believed to have driven this increase.

Closing inventory for CY 2003 has been revised upwards to 26.64 million head, in-line with the most currently available official data from the Australian Bureau of Statistics (ABS).

The data in the graph below and other graphs contained in this report is sourced from historic figures published by the Australian Bureau of Agricultural and Resource Economics (ABARE). ABARE traditionally uses a July-June year to report livestock figures.



Source: ABARE (July-June) data.

Recently released industry long-term forecasts have inventory steadily increasing over the medium term, reaching a record 30.4 million by CY 2009.

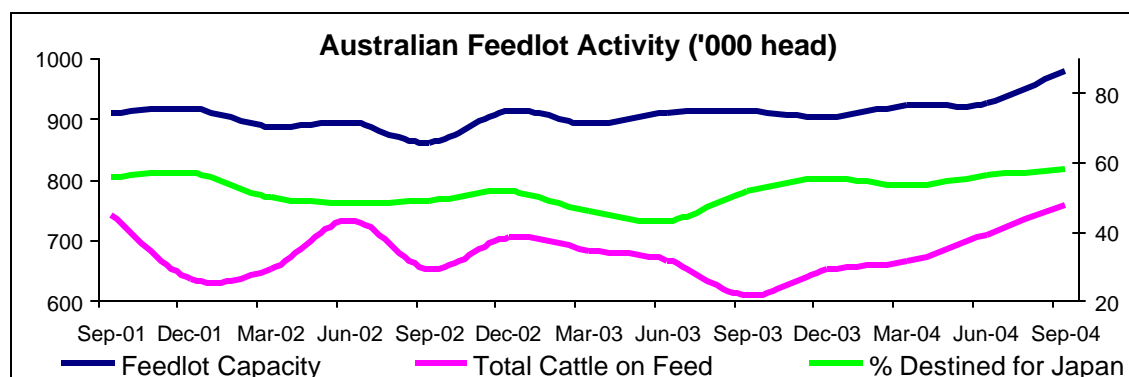
## Cattle on Feed

The Australian lot-feeding sector accounts for about one third of total cattle slaughtered, with this proportion growing steadily over the past decade. Typically, grain-fed cattle are destined for Japan, Korea and to the premium end of the domestic market, with most other markets supplied by grass-fed cattle.

Feedlot capacity for CY 2004 is reported to have reached a record high level of around 980,000 head. The most recent industry figures (July-September 2004 quarter) indicate a record 759,000 head of cattle on feed, equating to around 77 percent capacity utilization. According to industry reports, this quarterly cattle on feed figure represents a seven percent increase from the previous quarter and a 25 percent rise from the year-earlier quarter. Industry data for the April-June 2004 quarter also indicate that 56 percent of all cattle on feed are now destined for Japan, compared with 54 percent for the previous quarter and 43 percent for same quarter in the previous year.

Increases in both cattle on feed and the proportion of cattle on feed destined for export to Japan indicate that the historically high (record) monthly beef export figures to Japan in 2004 are likely sustainable into 2005.

The graph below indicates an increasing number of cattle on feed, which coincides with the detection of BSE in the United States in December 2003.



Source: Meat and Livestock Australia data.

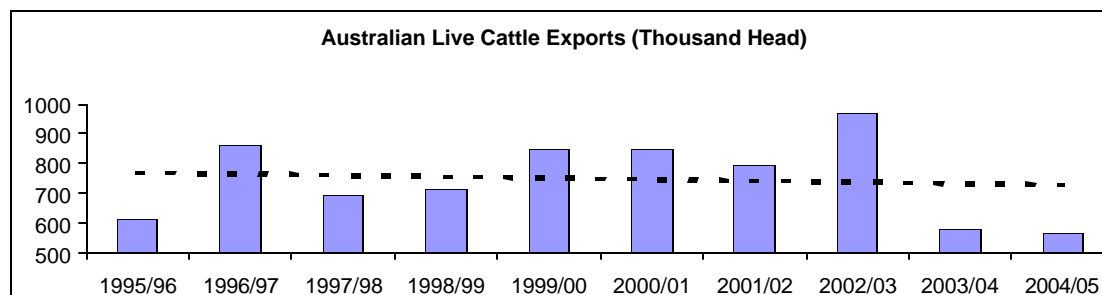
## Live Exports

Live cattle exports have fluctuated significantly over the past decade. According to a recent ABARE study, the supply of cattle for this trade has also changed markedly over the past decade. Originally, cattle from the Northern Territory accounted for over half of all live exports. However, this proportion has now declined to less than a third, with Western Australian now the largest supplier. Small numbers of live cattle are also being sourced from the southern states. More recently, high prices for beef exported to Japan have redirected some cattle supplies from the live export trade to domestic feedlots and processing.

Live cattle exports in CY 2005 are forecast at 580,000 head, down nearly nine percent from the previous year and down three percent from Post's previous figure. This export number remains well below the ten-year average, according to historical data published by ABARE. Higher prices for export slaughter beef have resulted in a declining number of cattle available for live export. Furthermore, Australian live cattle exports remain susceptible to currency price fluctuations, with the high Australian dollar continuing to pressure exports.

Furthermore, anecdotal evidence suggests that the historically high live cattle export levels reached between 2000 and 2003 may have depleted stock suitable for export in future years.

Live cattle exports are estimated at 635,000 in CY 2004, in-line with recent industry figures. Official ABS figures show a large export decline in the first quarter of 2004, but a subsequent increase in export levels, assisted by a short reprieve in the strength of the Australian dollar, pushed the full-year estimate to a level higher than previously expected.



Source: ABARE (July-June) data.

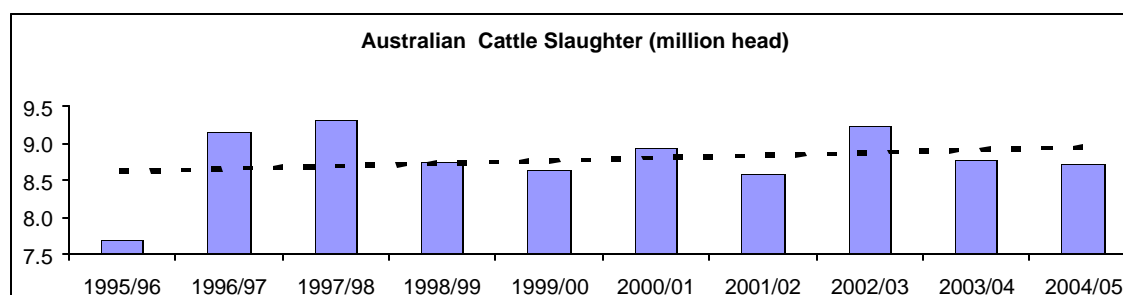
## Slaughter

Cattle slaughter is forecast to increase to 9.0 million head in CY 2005, an increase of 147,000 head from the previous year and slightly above the long-term average. Despite herd rebuilding being more commonly associated with lower slaughter rates, high prices and strong export demand, slaughter is likely to rise slightly as producers take advantage of high beef prices. A larger nominal calf crop facilitated by improved seasonal conditions and higher average fertility has facilitated the increase in slaughter.

Please note that a change in export conditions, such as the return of U.S. beef to the Japanese market in large quantities, would likely see slaughter levels fall below the current forecast. Such an event would likely trim slaughter figures and boost live export numbers slightly. However, industry sources do not expect the re-entry of U.S. beef to significantly change Australian beef and veal exports to Japan from that registered in 2004.

Estimated slaughter for CY 2004 has been revised upward slightly to 8.9 million head, in-line with industry estimates. High prices and strong export demand have seen slightly higher slaughter levels than previously anticipated. This increase comes despite official ABS and industry data indicating a fall in slaughter rates in the early part of CY 2004.

Post estimates cattle slaughter for 2003 at 9.2 million head, unchanged from the previous estimate and in-line with official ABS figures.



Source: ABARE (July-June) data.

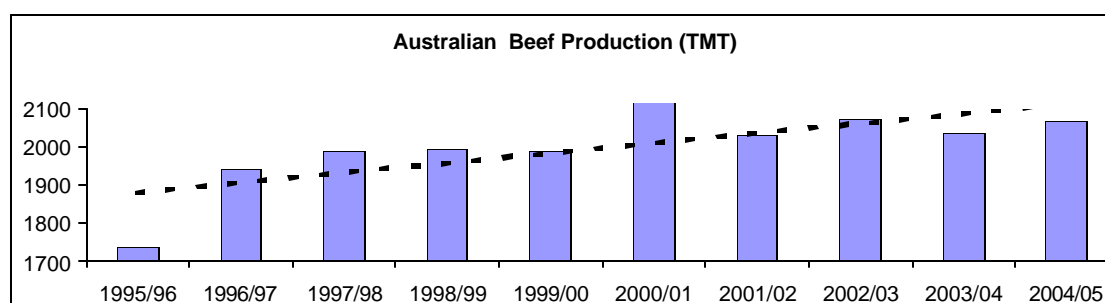
## Production

Total beef and veal production in CY 2005 is forecast at 2,150 thousand metric tons (TMT), up from Post's previous forecast and representing an historically high production level. This high production level is attributed to high prices and improved seasonal conditions, along with strong export demand. Production will likely be constrained slightly by lower carcass weights, as herd rebuilding results in a lower proportion of mature cattle being slaughtered.

This 2005 production forecast is below industry expectations of an all-time record production level. Industry assumes near record slaughter and historically high carcass weights in 2005. Post expects that the increase in forecast inventory will see a reduction in the slaughter of adult cattle and an associated reduction in average carcass weights, due to the retention of mature cattle for breeding purposes.

Beef and veal production in CY 2004 is revised upwards to 2,127 TMT, in-line with industry estimates. This increase is largely driven by increased slaughter, as well as an increase in average slaughter weight.

Production in 2003 is estimated at 2,073 TMT, unchanged from the previous estimate and in-line with official ABS figures.



Source: ABARE (July-June) data.

Long-term industry projections show beef production increasing steadily over the medium-term, reaching a record 2,462 TMT in 2009.

## Consumption

Domestic beef consumption in CY 2005 is forecast at 788,000 MT carcass weight equivalent (CWE). This is considered an historically high level and suggests that the long-term decline in beef consumption has been at least temporarily constrained, if not arrested. Strong economic growth and consumer confidence levels have also underpinned domestic demand.

Beef consumption in CY 2004 is estimated at 783,000 MT, up significantly from Post's previous forecast. A stronger Australian dollar increased the competitiveness of the domestic market relative to export markets. Official ABS statistics for consumption are no longer available. Historic ABARE data has current retail prices for beef just under record levels.

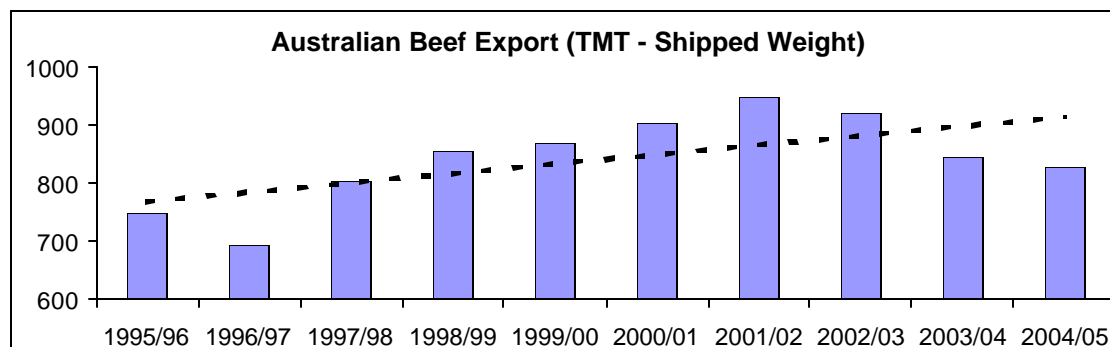
## Trade

Total beef and veal exports in CY 2005 are forecast at 1,380 TMT (CWE), up slightly from the revised estimate for the previous year. Production and exports are likely to be constrained

by a return to herd rebuilding and declining slaughter levels following the severe drought. Industry is forecasting exports at a record of 1,470 TMT, driven by a near record forecast slaughter level of 9.3 million head. Post believes that these figures are too optimistic given the forecast increase in inventories.

Beef and veal exports for CY 2004 are estimated at 1,358 TMT (CWE), in-line with industry estimates and up significantly from the 1,218 TMT previously reported by Post. Official year-to-date (January-November) ABS figures show exports at much higher levels than previously expected. This is partly due to the higher than previously forecast slaughter in 2004. Also, strong demand for Australian beef in Japan and other Asian markets, in the absence of competition from U.S. beef and veal, has resulted in the higher export figure.

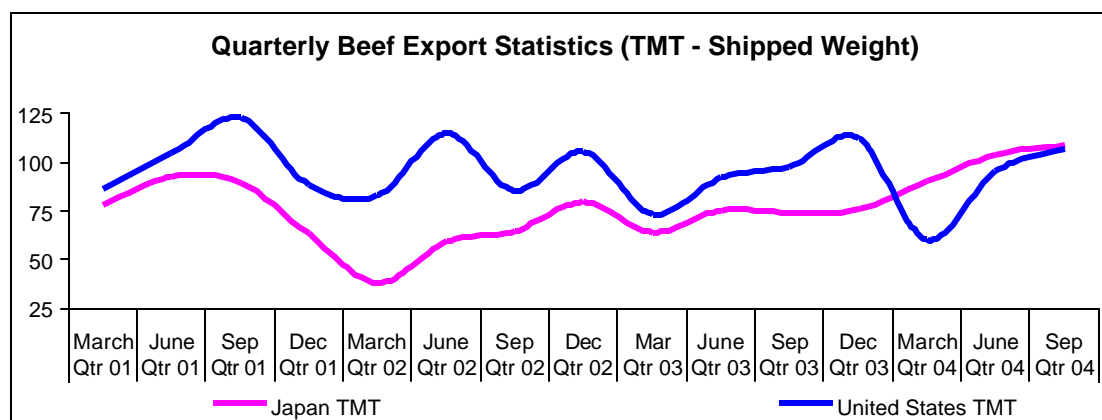
Post's export forecast of 1,380 TMT (CWE) in CY 2005 roughly equates to around 939 TMT on a shipped-weight basis, while the 2004 export estimate of 1,358 TMT equates to 925 TMT on a shipped-weight basis. Post uses a conversion factor of 1.42 for beef and veal exported under tariff codes 0201 and 0202, and a conversion factor of 1.79 for beef and veal exported under tariff codes 021020 and 160250.



Source: ABARE (July-June) data.

Since the detection of BSE in the United States, exports of beef to Japan have risen to record levels. According to official ABS statistics, the first quarter of CY 2004 saw Japan overtake the United States as Australia's number one beef and veal export destination on a volume basis. Industry sources in Australia anticipate the re-entry of U.S. beef into Japan in the second half of CY 2005. With the United States back in the Japanese market, the Australian industry still believes that Australian exports to Japan will remain at record-high levels in 2005 and into 2006.

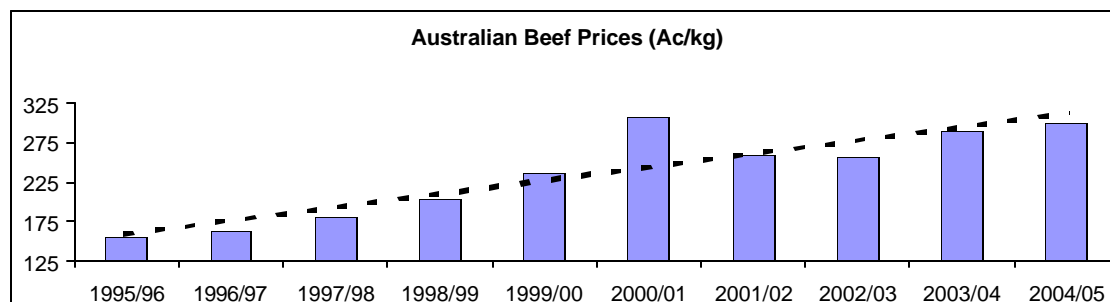
Australian beef exports to the United States initially fell upon the detection of BSE in the United States. However, the performance of this market has since recovered to levels more reflective of the historical average. The industry categorizes the outlook for exports to the United States as "strong". Solid demand and high prices in the United States are expected to see exports of Australian beef remain at or near the U.S. quota quantity.



Source: ABS (quarterly) data.

## Prices

Cattle prices are expected to be slightly lower in 2004/05 (July-June) compared to the year-earlier period, according to recent ABARE forecasts. A stronger Australian dollar and the detection of BSE in the United States have not appeared to constrain Australian cattle prices, which are currently at historically high levels.



Source: ABARE (July-June) data.

## Policy

**Australia-U.S. Free Trade Agreement and Beef:** The Australia-U.S. Free Trade Agreement (FTA) went into effect on January 1, 2005. Concerns over the impact the FTA may have on Australian industries and on government policies has been hotly debated.

The United States is currently Australia's second largest beef export market, with exports subject to a tariff rate quota (TRQ). Under the TRQ, Australia is granted duty-free access for the quota amount, with tariffs applied to any additional quantities. Under the FTA, Australia received an additional quota allocation for manufacturing beef, once U.S. beef exports return to their 2003 (pre-BSE) levels, or three years after implementation of the agreement, whichever occurs first. The U.S. "above-quota" tariff on Australian beef is to be phased out over an 18-year period. The previous U.S. tariff of US4.4 cents per kilogram on the quota quantity was eliminated upon enactment of the FTA.

Under the FTA, the United States will have immediate duty-free access to Australia for beef and beef products, as well as all other agricultural products. U.S. beef exports to Australia, however, are temporarily banned due to the detection of BSE in the United States.



Other FTA's

Australia implemented FTA's with Singapore in 2003 and Thailand in 2005; in addition to the "Closer Economic Relations" agreement with New Zealand, which dates to 1983. Additional FTA's are being explored with China, Malaysia, the Association of South East Asian Nations, Japan, South Korea, amongst others.

National Livestock Identification Scheme

Australia is implementing a National Livestock Identification Scheme (NLIS), an industry/government initiative which uses a centralized database and permanent animal identification to track cattle from birth to slaughter at an individual level. The NLIS scheme is mandatory in the state of Victoria and on track in other states for implementation on July 1, 2005 (see GAIN Report #AS3026 for further details.)

BSE in the United States

The Australian government has maintained a temporary suspension of beef imports from the United States since December 2003. The quantity of U.S. exports disrupted by the suspension has been minimal. The United States has traditionally supplied Australia with only minimal quantities of specialty beef cuts for the high-end restaurant trade.

The importation of vaccines and veterinary products from the United States is currently permitted provided it was manufactured prior to the detection of BSE. The suspension of the importation of vaccines manufactured post BSE detection is currently subject to review. The importation of livestock from the U.S. remains suspended and is not subject to ongoing review, although the Australian government continues to assess the status of BSE in the United States.

## SWINE

The Australian pig meat industry has been under considerable pressure since imports were first permitted from Canada and Denmark in the mid 1990's. In 2004, a generic pig meat Import Risk Analysis was completed, which led to market access for other countries, including the United States. Relatively small quantities of U.S. pork entered the Australian market during the last part of 2004.

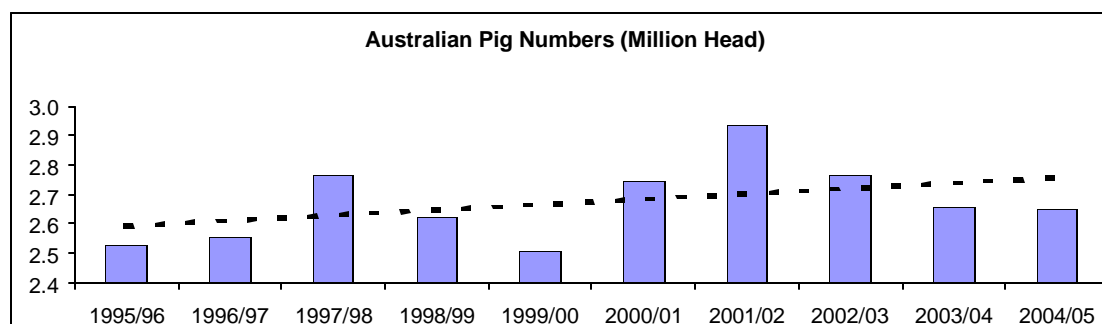
A stronger Australian dollar in 2004 reduced the competitiveness of exports and increased that of imports. The Australian pork industry remains under considerable competitive pressure and is likely to continue its restructuring process, which began in the late 1990s.

### Inventory

Closing inventory is forecast to rise to 2.6 million head in CY 2005. This represents a significant downward revision from Post's previous report. The follow-on affects from the drought, such as higher slaughter rates, resulted in a downward revision in closing inventories for 2004. The lower than expected inventory number is attributed to the strong Australian dollar and continued high feed grain prices, which did not allow the industry to expand at the rate previously anticipated. However, Post forecasts sow numbers to rise slightly in 2005, adding to the possibility of a more significant expansion in 2006.

Closing inventory for CY 2004 has been revised downward to 2.5 million head, the lowest closing inventory figure since 2000. Record slaughter levels in 2003 and historically high levels in 2004 drove inventory downward more than previously anticipated.

Closing inventory in CY 2003 remains unchanged at just under 2.7 million head, in-line with official ABS figures and well under Post's previous estimate of 2.9 million head.



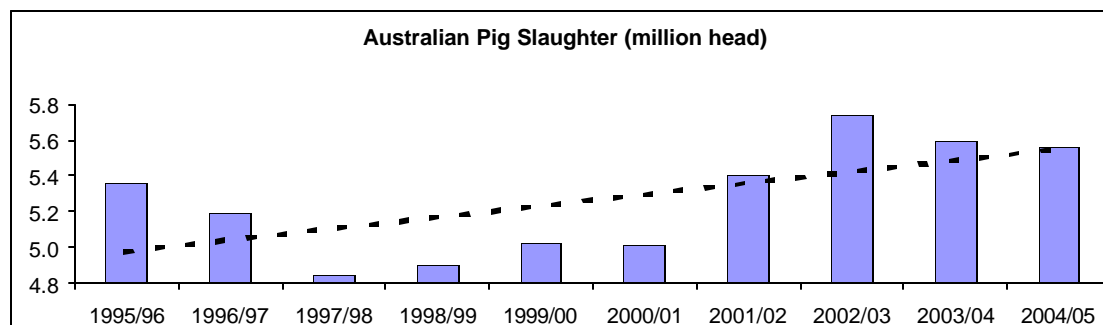
Source: ABARE (July-June) data.

### Slaughter

Total pig slaughter is forecast to decline to 5.3 million head in CY 2005, three percent lower than the previous year. Improved supplies of feed grain are likely to see slaughter continue declining slowly in 2005 as it has over 2004. This slaughter figure is significantly higher than Post's previous forecast. Despite an easing of domestic grain prices following severe drought, grain prices remain at historically high levels. Furthermore, a strong Australian dollar has increased financial pressure on the industry and is likely to see slaughter remain at relatively high levels.

Estimated slaughter for CY 2004 has been revised upward to 5.45 million head. Official ABS year-to-date data for CY 2004 shows that, despite the continual decline in slaughter since the drought, slaughter levels remain at historically high levels. Industry figures also show slaughter decreasing over 2004, albeit at slower than expected rates.

The CY 2003 slaughter number remains unchanged at a record 5.7 million head, in-line with official ABS statistics. Industry data also suggests that this is a record slaughter level.



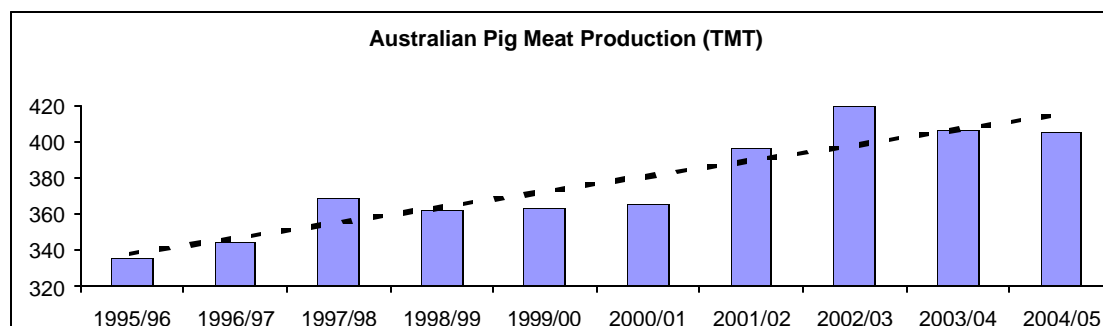
Source: ABARE (July-June) data.

## Production

Total pig meat production for CY 2005 is forecast at 385,000 MT, unchanged from Post's previous forecast and four percent lower than output in 2004. Lower production is likely to be driven by a reduction in slaughter weights with a lower proportion of older stock being slaughtered, which is commonly associated with a recovery in inventory. Post's derived slaughter weight is now more reflective of current industry figures.

Estimated production for CY 2004 has been revised downwards to 399,000 MT, in-line with year-to-date ABS data. Industry data also shows lower production for 2004. This 2005 production figure has been revised downward, despite an upward revision in slaughter, and brings derived carcass weights closer to industry figures.

Post's production estimate for CY 2003 has been revised downward slightly to 419,000 MT, in-line with revised ABS statistics. The record slaughter level in 2003 pushed production to a record level, according to ABARE historical data.



Source: ABARE (July-June) data.

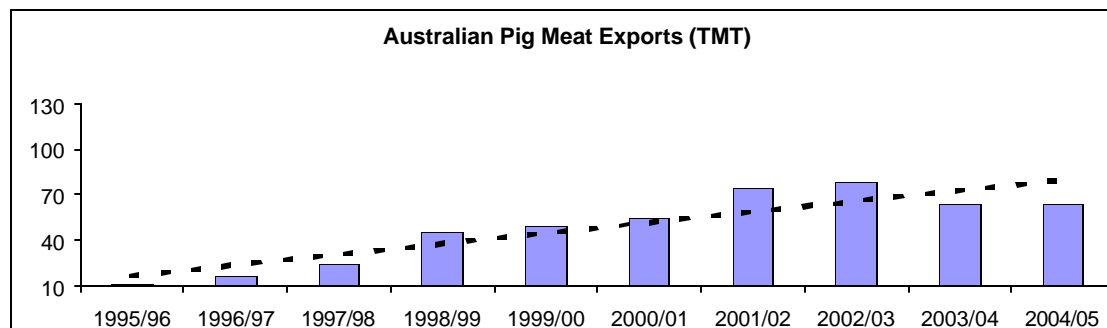
## Trade

### Exports

Total pig meat exports in CY 2005 are forecast at 65,000 MT (CWE), unchanged from Post's previous figure and representative of recent years' export levels. Post uses a conversion factor of 1.25 to convert shipped weight data to carcass weight equivalent (CWE). This figure represents an increase from the 58,000 MT estimated for the previous year. Post anticipates a slight improvement in trading conditions for 2005, which should see exports move closer to the near-term average, despite slightly lower production.

The projected export of pig meat in CY 2004 has been revised downwards to 58,000 MT. Official year-to-date ABS statistics for 2004 show a 21 percent drop in exports compared to the same quarter in the previous year. Industry figures also show lower exports on a year-to-date basis.

Pig meat exports for CY 2003 have been revised upwards to 74,000 MT, in-line with official ABS statistics.



Source: ABARE (July-June) data.

### Imports

Total imports for CY 2005 are forecast at a record 80,000 MT, up significantly from the 70,000 MT in 2004 and in-line with the trend of monthly increases that characterized the second half of 2004. If achieved, this would represent a record level of imports for a calendar year, although industry figures show higher levels for the rolling year ending August 2004. A continued high Australian dollar and lower domestic production should see imports grow in 2005.

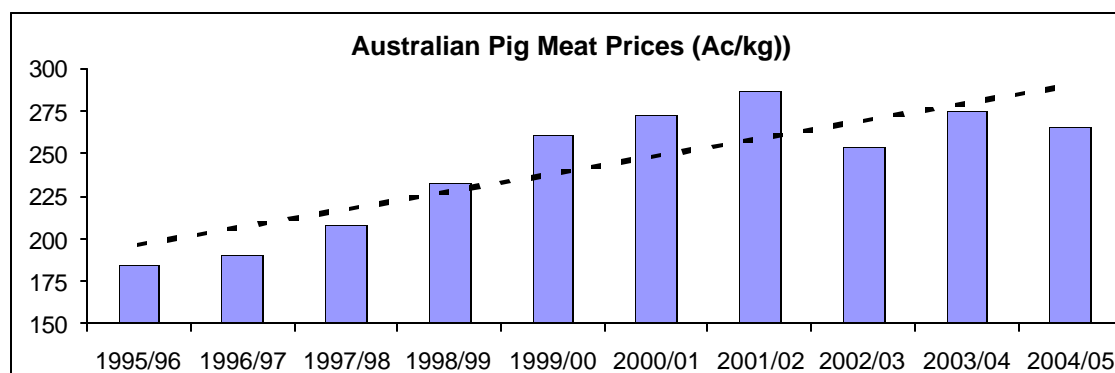
Pig meat imports for CY 2004 are estimated at 70,000 MT (CWE), down 5,000 MT from Post's previous forecast. The 2004 import projection is in-line with year-to-date government and industry data.

Until recently, only three countries were approved to ship commercial quantities of pig meat to Australia -- Canada, Denmark and New Zealand. On May 10, 2004, the Australian Government announced new import conditions for pig meat, including additional countries that can supply pork products. Australian Pork Limited (APL), the peak body representing the pork industry, actively sought to overturn the decision and, when unsuccessful in the appeals process, filed a court case challenging the decision. A legal decision to the case is likely to be made in the first half of 2005.

The United States began shipping pig meat to Australia in the second half of 2004, with shipments arriving in Australia for the months of October, November and December. These shipments totaled approximately 600 MT in shipped weight, approximately 750 MT CWE. Post expects that U.S. imports will reach 10,000 MT in 2005, nearly seven percent of total imports. It is expected that most of the growth in imports from the United States will come at the expense of Canadian product.

### Prices

Australian pig meat prices have been trending upwards for the past decade, according to ABARE's historical figures. More recently, however, higher production and a strengthening in the Australian dollar have combined to sharply lower returns, while imports remained competitively priced. This set of conditions has created considerable pressure on the local industry to continue the restructuring process, which began in the late 1990s.



Source: ABARE (July-June) data.