



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - public distribution

Date: 8/25/2004

GAIN Report Number: NZ4014

New Zealand

Livestock and Products

Annual

2004

Approved by:

David Rosenbloom
U.S. Embassy

Prepared by:

Alastair Patterson

Report Highlights:

New Zealand's beef export volume in 2005 is forecast to fall 14 percent to 507,000 tons. A 12 percent reduction in animal slaughter is anticipated due to herd rebuilding and markedly lower numbers of maturing bull beef. The New Zealand ban on imports of U.S. live cattle and beef products continues. The New Zealand Food Safety Authority, however, is assessing import applications for U.S. beef products on a case-by-case basis.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Wellington [NZ1]
[NZ]

SECTION I. SITUATION AND OUTLOOK

New Zealand's beef slaughter in 2005 is forecast to decline 12 percent to 617,000 tons (CWE), as farmers rebuild herd levels following a large beef kill in both 2003 and 2004. The reduced slaughter will result in a 14 percent drop in New Zealand's beef export volume in 2005 to 507,000 tons (CWE). Exports to the U.S. market in 2005 will mirror the lower total export volume. New Zealand beef prices are projected to ease slightly in 2005, but will remain well above the average of the last five years. New Zealand beef prices may face additional downward pressure if the New Zealand dollar continues to appreciate against the U.S. dollar. New Zealand's higher quality cuts sold to Asian markets are now enjoying excellent demand and strong price levels. Beef prices for New Zealand product shipped to these markets during 2005 will gain strength from a reduction in exportable beef volumes in Australia resulting from stock rebuilding following drought conditions in the past two years.

Beef exports to the United States increased 5 percent to 148,000 tons during the first 6 months of 2004, compared with the same period a year earlier. Exports to Korea, Japan, and Taiwan rose 110 percent, 76 percent and 41 percent, respectively. Demand for New Zealand beef in Asian markets increased followed the discovery of a BSE infected cow in the United States. Strong beef prices prompted a higher beef kill in 2004 for New Zealand, resulting in a 4 percent drop in beef cattle numbers. New Zealand's beef cattle population continues to trend downward as farmers convert to more profitable land use options, particularly sheep and dairy farming.

New Zealand initiated a ban on imports of U.S. live cattle, beef, variety meats and processed foods containing beef following the December 2003 announcement of bovine spongiform encephalopathy (BSE) in the United States. The U.S. beef industry was not significantly affected by the import restrictions. Almost all beef consumed in New Zealand is locally produced. The New Zealand Food Safety Authority, however, is reviewing import applications for U.S. beef products on a case-by-case basis. It recently granted an import request for a range of U.S. canned beef products.

New Zealand implemented interim guidelines for its beef exports that adhere to new U.S. regulations for meat consumed in the United States (both domestic and imported) enacted following the BSE detection. New Zealand seeks to modify the application of these rules for New Zealand's beef on the basis of an equivalency program. The New Zealand government emphasizes that it is a BSE-free country and achieving compliance with the new guidelines has placed significant additional costs on its beef exports to the United States without providing additional food safety to U.S. consumers.

China ceased issuing import permits for New Zealand beef in June 2004 from all processing facilities not previously approved by Chinese inspectors. New Zealand incorrectly thought that it had successfully completed negotiations for an equivalence agreement with China, similar to a protocol existing with the EU. Resolution of this trade issue is moving forward following a visit of Chinese officials in early August. China is expected to issue a report regarding the export status of New Zealand meat plants in early October. New Zealand and China are now working on a bilateral free trade agreement with a target date for completion in 2005.

SECTION II. PS&D TABLES

New Zealand Animal Numbers, Cattle						
	(1000 HEAD)					
	2003	Revised	2004	Estimate	2005	Forecast
	USDA Official	Post Estimate	USDA Official	Post Estimate	USDA Official	Post Estimate
	[Old]	[New]	[Old]	[New]	[Old]	[New]
Market Year Begin		01/2003		01/2004		01/2005
Total Cattle Beg. Stks	9760	9760	9720	9540	9860	9425
Dairy Cows Beg. Stks	3927	3927	3966	3966	0	4005
Beef Cows Beg. Stocks	1280	1280	1271	1230	0	1180
Production (Calf Crop)	4478	4475	4550	4470	0	4460
Intra EC Imports	0	0	0	0	0	0
Total Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	14238	14235	14270	14010	9860	13885
Intra EC Exports	0	0	0	0	0	0
Total Exports	18	15	10	50	0	50
TOTAL Exports	18	15	10	50	0	50
Cow Slaughter	1384	900	1300	900	0	780
Calf Slaughter	1596	1560	1570	1400	0	1450
Other Slaughter	1260	1780	1270	1800	0	1600
Total Slaughter	4240	4240	4140	4100	0	3830
Loss	260	440	260	435	0	430
Ending Inventories	9720	9540	9860	9425	0	9575
TOTAL DISTRIBUTION	14238	14235	14270	14010	0	13885
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

New Zealand Meat, Beef and Veal						
	2003		2004		2005	
	USDA Official	Revised	USDA Official	Estimate	USDA Official	Forecast
	[Old]	Post Estimate	[Old]	Post Estimate	[Old]	Post Estimate
		[New]		[New]		[New]
Market Year Begin		01/2003		01/2004		01/2005
Slaughter (Reference)	4240	4240	4140	4100	0	3830
Beginning Stocks	0	0	0	0	0	0
Production	665	693	660	700	0	617
Intra EC Imports	0	0	0	0	0	0
Total Imports	14	13	11	10	0	10
TOTAL Imports	14	13	11	10	0	10
TOTAL SUPPLY	679	706	671	710	0	627
Intra EC Exports	0	0	0	0	0	0
Total Exports	578	585	560	590	0	507
TOTAL Exports	578	585	560	590	0	507
Human Dom. Consumption	101	121	111	120	0	120
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consumption	101	121	111	120	0	120
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	679	706	671	710	0	627
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	300	300	305	305	0	270

TRADE MATRIX – BEEF EXPORTS

Trade Matrix, New Zealand Beef Exports				
Country	Calendar Year		Jan – June	
	2002	2003	2003	2004
United States	208,110	227,990	140,663	148,230
Canada	43,037	42,966	34,659	20,135
Korea, South	19,832	28,717	16,446	34,628
Taiwan	15,482	23,134	13,524	19,117
Japan	20,203	22,139	12,380	21,842
Other	45,304	59,776	30,866	36,685
Total	351,969	404,721	248,538	280,636

SECTION III. SUPPLY AND DEMAND, POLICY AND MARKETING

BEEF AND VEAL PRODUCTION

2005 Outlook

New Zealand's total cattle slaughter is forecast to decline 12 percent to 617,000 tons (CWE) in 2005 due to a reduction in cull numbers of adult cattle. This will reduce beef exports by 14 percent to 507,000 tons (CWE). Adult slaughter numbers will be further reduced by lower retention rates of bull dairy calves for beef production in 2003, as these animals take two years to reach mature weight levels. New Zealand's calf cull is forecast to remain the similar to 2004. Fewer bull calves will be retained for beef production in 2005, but more heifer calves are expected to be retained for herd rebuilding.

New Zealand's capacity to take advantage of supply shortages in Asian markets is limited by the fact that it produces mainly grass-fed beef. New Zealand exporters are working hard to educate Asian purchasers of the benefits of grass-fed beef, but grain-fed is still strongly preferred by the high-end segment of the market. Exports to the U.S. market were only moderately affected by the increased demand for New Zealand beef cuts in Asian markets since the United States purchases primarily mixing beef and secondary cuts, rather than primary cuts. Exports to the U.S. market in 2005 will reflect New Zealand's 14 percent decrease in total export volume.

Current uncertainty surrounding international beef markets has made it difficult for New Zealand's beef industry to accurately forecast what will happen in 2005. New Zealand's beef industry is a price taker, and will respond to sales conditions in the U.S. market as well as the re-entry of U.S. and Canadian beef into Asian markets. Export revenue generated by strong price levels generated on sales to the U.S. market will be partly offset by the anticipated strength of the New Zealand dollar in 2005. Assuming, however, that restrictions on the importation of U.S. and Canadian beef into Asian markets remain in place, New Zealand's beef industry will continue to benefit from strong export prices for its higher quality cuts of beef. Australian production is forecast to decline in 2005 as Australian producers rebuild stock numbers following drought conditions during the past two years. New Zealand exporters are not likely to be able to take full advantage of the anticipated strength in export demand, as the high slaughter levels of 2003 and 2004 will create a need for herd rebuilding in 2005.

2003-2004 Review

New Zealand beef prices between July 2003 and June 2004 generally strengthened, mirroring those in the United States. Annual New Zealand beef exports for the first half of 2004 were 13 percent above the same period a year earlier thanks to heavier export shipments to Asian countries. New Zealand's beef kill is expected to decline in the second half of 2004, finishing only slightly ahead of 2003 for the year as a whole. Farmers will strive to strike a balance between slaughtering as many animals as possible to take advantage of high prices while still retaining adequate stock for herd rebuilding.

The first half of 2004 was generally unpredictable for New Zealand's beef industry and altered the structure of New Zealand exports to a minor extent. New Zealand exporters benefited from strong export demand and higher prices in the U.S. market following the discovery of BSE in December 2003. Beef exports to the United States reached 148,000 tons during the first half of 2004, 6 percent above the same period a year earlier. Exports to Canada, however, dropped significantly during the same period. New Zealand beef enters

Canada under an annual import quota of 27,600 tons. Under normal market conditions, Canada usually adjusts the import quota level upward. This, however, has not occurred this year. Canada is usually New Zealand's second most important export destination (in tonnage terms), but has fallen to fourth this year behind the United States, South Korea and Japan. New Zealand exporters are not significantly troubled by the lower sales to Canada because market conditions have created better returns in Asia.

Exports to Korea, Japan and Taiwan during the first half of calendar 2004 increased 110 percent, 76 percent and 41 percent, respectively. This follows large sales gains recorded to these three markets in 2002 and 2003, following the relaxation of non-tariff import barriers in these countries and their economic recovery from the Asian financial crisis. The exclusion of both Canadian and the U.S. beef from key Asian markets has increased demand and price levels received for New Zealand beef, more than offsetting price and quantity reductions on sales to the Canadian market. New Zealand's beef industry is attempting to educate Asian buyers and consumers about grass-fed beef. New Zealand exporters are benefiting from Australia's inability to fully meet import demand in Asian markets.

The re-entry of U.S. and Canadian beef into Asian markets will have a negative impact on New Zealand beef exports to these markets. Once Canada and the United States re-enter the market, much of the market share that New Zealand has gained will be lost. New Zealand's beef industry hopes that re-entry will be gradual, reflecting a currently buoyant U.S. market and the possibility of a staged, rather than immediate, relaxation of Asian country import restrictions.

Beef Demand

With more than 80 percent of New Zealand's beef production marketed in export channels, world markets heavily influence New Zealand beef prices and producer returns. The U.S. market accepts 50 percent of New Zealand's beef production, accounting for nearly two-thirds of export shipments. New Zealand beef prices generally follow those in the United States. The remainder of New Zealand's export supply is shared primarily amongst (in descending order of market size) Canada, South Korea, Taiwan and Japan. Although the Asian markets generally take New Zealand's higher value cuts of meat, their relatively small size minimizes the impact that they have on the overall profitability of New Zealand beef farmers. New Zealand beef earns few price premiums in most export markets because it is grass-fed. Limited export volumes in comparison to Australia, Canada and the United States, relegates New Zealand to being a price taker in its main export markets.

A large proportion of New Zealand's beef production is used as manufacturing-grade processed meat. The U.S. market receives 75 percent of New Zealand's ingredient beef production, which is mixed with American ground beef (hamburger) to reduce the fat percentage of the resulting product. New Zealand traditionally has sold two-thirds of its secondary beef production to the U.S. for use in items such as pastrami. This is an important market for New Zealand because it provides an outlet for its lower value beef cuts that are difficult to sell in other markets. Opportunities for expansion in the U.S. market are limited by New Zealand's export quota of 213,402 tons (product weight) annually. Although not filled every year, the quota was filled during 2003 and is likely to be filled again in 2004.

STOCK NUMBERS

Total beef cattle numbers in New Zealand continue to trend downward, as beef farmers convert to more profitable land use options, particularly sheep and dairy farming. Strong beef prices in 2004 kept New Zealand's beef kill high, resulting in a 4 percent decline in beef cattle numbers. Strong beef prices will motivate farmers to retain bull calves for beef production, lowering the calf cull in 2004. Slaughter of adult cattle will increase slightly. Although New Zealand's beef kill is now running slightly ahead of last year, it is expected to ease towards the end of the year. Live cattle exports increased significantly in 2004 due to strong Chinese demand for New Zealand bred Friesian dairy cows with specific attributes.

Beef prices are forecast to ease in 2005, but still remain relatively strong. Because of the large beef kill in 2003 and 2004, farmers will be motivated to begin rebuilding their beef herds next year. This will greatly reduce the availability of stock for slaughter. Calf retentions will remain high, although the lower beef prices will result in lower retentions of bull calves for beef production. The slaughter of adult cattle will be further reduced in 2005 as the flow-on effect of farmers retaining fewer bull calves for beef production in 2003 is felt. Beef breeding cow numbers are forecast to decrease 4 percent during 2004, while dairy cow numbers are forecast to grow no more than 1 percent as the rate of growth of New Zealand's dairy herd has slowed considerably.

New Zealand annual slaughter numbers were revised following receipt of more accurate data. See www.nzmeatstats.co.nz for more information. A trade matrix for animal imports and exports has not been included due to the small size of this trade.

POLICY

BSE

New Zealand initiated a ban on imports of U.S. live cattle, beef, variety meats and processed foods containing beef following the December 2003 announcement of bovine spongiform encephalopathy (BSE) in the United States. The U.S. beef industry is not significantly affected by the import restrictions, as almost all beef consumed in New Zealand is locally produced. The New Zealand Government is demonstrating some flexibility in implementing its regulatory guidelines regarding imports of U.S. beef. The New Zealand Food Safety Authority has indicated that it is willing to review import applications for U.S. beef products on a case-by-case basis. It recently granted an import request for a range of U.S. canned beef products. Frozen [bovine semen](#) and frozen in-vivo fertilized [bovine embryos](#) from the United States remain eligible for importation into New Zealand.

See <http://www.maf.govt.nz/biosecurity/imports/animals/standards/index.htm> for more information.

Due to the importance of maintaining access to the U.S. market, New Zealand implemented interim guidelines for its beef exports that adhere to new U.S. regulations for meat consumed in the United States enacted following the BSE detection. This has required regulatory and marketing adjustments for New Zealand. New Zealand seeks to modify the application of these rules for its beef entering the United States on the basis of an equivalency program. New Zealand takes the view that because it is recognized as a BSE-free country, the new guidelines have placed significant additional costs on its beef exports to the United States without providing additional food safety to U.S. consumers. See [NZ4002](#) for further information on New Zealand's stance.

Meat and Wool Industry Restructuring

The New Zealand meat and wool industries have now completed significant restructuring (see [NZ4002](#)). The Meat Board Restructuring Bill, introduced by the Government in late 2003, was passed in June 2004. The Bill restricts the regulatory authority of New Zealand's Meat Board to managing export quota allocations given to New Zealand by other countries. The Meat Board will continue as a statutory body. This guarantees that the quota management function will remain viable in the event that farmers decide to discontinue paying levies to fund industry-good activity. Activities previously managed or implemented by the Meat and the Wool Boards that are identified as 'industry good' have been turned over to a new joint industry organization called Meat and Wool New Zealand (MWNZ). MWNZ was approved by a farmer referendum held in August 2003. Meat and Wool New Zealand will have the power to levy farmers under the terms of the Commodities Levies Act 1991 (CLA). Beef farmers will contribute NZ\$ 8.7 million of MWNZ's total operating budget estimated at NZ\$ 32.6 million in the 2004/05 year. Funds will be allocated according to how farmers voted, with half of the budget going towards research and development, and the remainder spent on trade access, information and economic analysis, skills and education, administration and statutory costs.

Under the CLA, a producer referendum allows farmers to determine what type of activities will be funded through producer levies collected by Meat and Wool New Zealand and to set future producer levy rates that will be in force for a period of 5 years. Industry Good activity is a broad categorization that includes market development efforts, market access, and research and development. MWNZ, as the new industry-good organization, must demonstrate to farmers a positive return on their levy investment in each of the key activity areas.

China

In June 2004, China refused to issue new import permits for New Zealand beef not produced by plants that were previously approved by Chinese inspectors. New Zealand officials hope to reach an equivalence agreement with China accepting New Zealand's food safety system in similar fashion to the EU. A visit of Chinese government officials in early August is expected to lead to resolution of the problem. China is expected to issue a report on the export status of New Zealand meat plants in early October.

Discussions on the trade and economic framework for a free trade agreement (FTA) between New Zealand and China were initiated in January 2004. This will be followed by a study on the feasibility of a FTA and then possibly negotiations on a trade deal. Both countries have expressed a desire to conclude a FTA in 2005. New Zealand's efforts to reach a trade accord with China are boosted by its willingness to meet China's demand to be recognized as a market economy, which will provide China with relief from anti-dumping provisions that it accepted when it joined the WTO.

EU Quota

New Zealand beef exports to the EU have to date been negatively affected by the EU's expansion to 25 countries. The EU's import quota for New Zealand beef prior to EU expansion was 300 tons. This is less than the 1,000 tons annually exported to Cyprus and Malta before they joined the EU. New Zealand hopes to meet with EU officials to resolve this trade issue before the beef import quota for New Zealand is set on July 1, 2005.

MARKETING

Meat and Wool New Zealand Marketing

MWNZ will continue funding market development activity to promote meat sales and consumption in both the domestic and export markets. Approximately 60 percent of the NZ\$ 9.1 million producer funds allocated by MWNZ for market development activities to promote export sales of New Zealand's red meat will be allocated to beef, with the 40 percent remainder directed to sheep meat. These proportions represent producer levy contributions. Beef promotional activity will focus on the restaurant and food service trade in Asia, particularly in key North Asian markets such as Japan, Hong Kong, Korea, and Taiwan. MWNZ promotional funds will be directed to generic marketing activities jointly undertaken with New Zealand exporters and foreign importers. Individual New Zealand exporters also will conduct their own branded promotional activities in export markets.

Although two-thirds of New Zealand's beef exports are sold to the United States, Meat and Wool New Zealand does not plan to allocate any of its promotional funds to North America. This is due to the ease that New Zealand fills its export quota to the United States and because of the type of beef that is exported to this market. Sales to the United States consist largely of lower value, manufacturing grade beef used as a blending ingredient with U.S. product to produce ground meat. The New Zealand industry is attempting to expand its sales to other markets, which will reduce its reliance on sales to the United States. New Zealand beef entering the United States contributes funds to generic beef promotion through USDA's check-off program.

Further Information

Ministry of Agriculture and Forestry
www.maf.govt.nz

Meat and Wool New Zealand
www.meatnz.co.nz

Meat and Wool New Zealand statistics
www.nzmeatstats.co.nz