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Report Highlights:

Our forecast for beef production in 2004 has been revised upward to 660,000 tons (carcass weight equivalent) and exports are now projected to reach 545,000 tons. New Zealand is meeting new USDA regulatory measures for animal slaughter for its beef export shipments to the United States. Although beef export prices remain strong following the U.S. BSE incident, producer returns have fallen sharply because of the appreciation of the New Zealand dollar over the past year.

Includes PSD Changes: Yes
Includes Trade Matrix: No
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SECTION I. SITUATION & OUTLOOK

New Zealand exporters are cautiously monitoring the U.S. market, which takes nearly 50 percent of all New Zealand beef production. As of late January, U.S. consumer demand for ground beef (hamburger) remains robust despite the detection last month of BSE in the United States. New Zealand exporters continue to receive strong prices for their shipments to the United States, consisting largely of manufacturing grade beef for use as a blending ingredient with U.S. ground beef. The local industry, however, is concerned that the inability of U.S. producers to market their export availabilities may result in falling price levels in the U.S. market. This, together with the sharp rise in the value of the New Zealand dollar recorded over the past year, offers the potential for seriously eroding profit margins for New Zealand beef producers.

New Zealand's beef export demand is not expected to change significantly as a result of the U.S. BSE case from the picture outlined in post's 2003 Annual Livestock Report. (See NZ3013) The local meat industry is largely unable and/or hesitant to capitalize on the dislocation of U.S. beef from key overseas markets. There has been a noticeable increase in enquiries from importers in key markets now closed to U.S. beef, including a delegation from Japan in January. New Zealand exporters do not anticipate a significant change in their export sales patterns. Most exporters are apprehensive to endanger the strong long-term sales relationships that they have established with trading partners for the sake of what most view as short-term profit opportunities. The local meat industry is aware of the marketing challenge in filling supply gaps created by the sudden unavailability of U.S. product in overseas markets because of the U.S. BSE detection. New Zealand's grass fed beef has significantly different quality characteristics than U.S. grain fed beef; and its beef cuts generally are exported for consumption in lower-priced restaurants. U.S. beef is viewed as a higher value product that targets a different market segment.

New Zealand's meat industry will meet the new USDA regulatory measures announced in January 2004, that affect U.S. beef production since they also apply to beef imported into the United States. New Zealand, however, feels that because the local industry enjoys a BSE free status, the application of the new rules to New Zealand beef imposes an unjustified hardship and expense to New Zealand. While the new U.S. requirements are being applied to avoid a break in export sales to the U.S. market, New Zealand hopes to reach an understanding with the United States regarding regulatory equivalency which will modify the application of the new rules for New Zealand's beef while still meeting the food safety standards sought by USDA for U.S. consumers.

Livestock numbers shown in the PS&D table of this report have been adjusted based upon a recent New Zealand animal census. New Zealand's cattle population is expected to fall from 9.75 million head in 2003 to 9.72 million in 2004. The main driver for this is a 2 percent decrease in beef cattle numbers to 4.45 million. New Zealand's dairy herd is set to increase 1 percent to 5.27 million head.

All categories of cattle slaughtered will decrease in 2004, with total slaughter forecast to fall 3 percent. This is driven by two main factors. 1) The number of young dairy calves (bobby calves) retained for beef production this year will increase approximately 6 percent, which will reduce animal availability for slaughter in 2004. 2) A reduction in farmer retention rates for young dairy calves experienced in 2002 is now being felt in the reduced slaughter for 2004 since these animals have now reached mature weight levels after the normal two year period.

SECTION II. STATISTICAL TABLES

PS&D TABLE – CATTLE NUMBERS

New Zealand Animal Numbers, Cattle							
	2002 USDA Official [Old]	Revised Post Estimate [New]	2003 USDA Official [Old]	Estimate Post Estimate [New]	2004 USDA Official [Old]	Forecast Post Estimate [New]	UOM
Market Year Begin		01/2002		01/2003		01/2004	MM/YYYY
Total Cattle Beg. Stocks	9280	9657	9614	9760	9591	9720	(1000 HD)
Dairy Cows Beg. Stocks	3480	3883	3550	3927	3583	3966	(1000 HD)
Beef Cows Beg. Stocks	1473	1263	1525	1280	1522	1271	(1000 HD)
Production (Calf Crop)	3919	4440	3963	4475	3892	4550	(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	13199	14097	13577	14235	13483	14270	(1000 HD)
Intra EC Exports	0	0	0	0	0	0	(1000 HD)
Total Exports	11	10	12	15	5	10	(1000 HD)
TOTAL Exports	11	10	12	15	5	10	(1000 HD)
Cow Slaughter	1088	1068	1276	1294	1283	1286	(1000 HD)
Calf Slaughter	1352	1602	1510	1596	1550	1550	(1000 HD)
Other Slaughter	1093	1217	1148	1170	1104	1190	(1000 HD)
Total Slaughter	3533	3887	3934	4060	3937	4026	(1000 HD)
Loss	41	440	40	440	41	440	(1000 HD)
Ending Inventories	9614	9760	9591	9720	9500	9794	(1000 HD)
TOTAL DISTRIBUTION	13199	14097	13577	14235	13483	14270	(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)

PS&D TABLE – BEEF/VEAL PRODUCTION

New Zealand Meat, Beef and Veal							
	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2002		01/2003		01/2004	MM/YYYY
Slaughter (Reference)	3533	3887	3934	4060	3937	4026	(1000 HEAD)
Beginning Stocks	0	0	0	0	0	0	(1000 MT CWE)
Production	589	672	635	660	640	660	(1000 MT CWE)
Intra EC Imports	0	0	0	0	0	0	(1000 MT CWE)
Total Imports	22	9	20	13	20	10	(1000 MT CWE)
TOTAL Imports	22	9	20	13	20	10	(1000 MT CWE)
TOTAL SUPPLY	611	681	655	673	660	670	(1000 MT CWE)
Intra EC Exports	0	0	0	0	0	0	(1000 MT CWE)
Total Exports	503	561	535	552	535	545	(1000 MT CWE)
TOTAL Exports	503	561	535	552	535	545	(1000 MT CWE)
Human Dom. Consumption	108	120	120	121	125	125	(1000 MT CWE)
Other Use, Losses	0	0	0	0	0	0	(1000 MT CWE)
TOTAL Dom. Consumption	108	120	120	121	125	125	(1000 MT CWE)
Ending Stocks	0	0	0	0	0	0	(1000 MT CWE)
TOTAL DISTRIBUTION	611	681	655	673	660	670	(1000 MT CWE)
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	(1000 MT CWE)
Calendar Yr. Exp. to U.S.	288	288	300	300	300	305	(1000 MT CWE)

SECTION III. SUPPLY AND DEMAND, POLICY & MARKETING**STOCK NUMBERS**

Livestock figures in this report have been adjusted to better reflect the completion of an official animal census. This was a complete livestock census based on a mid-2002 assessment. The last previous census was completed in 1994 and animal figures during the interim period were estimated using sampling techniques.

New Zealand had a warmer and drier winter than average in 2003, which was favorable for livestock production. The New Zealand cattle population (beef cattle, beef breeding cows and dairy cattle) is expected to fall from 9.75 million head in June 2003 to 9.72 million in 2004. This will result from a 2 percent decrease in beef cattle numbers from a year earlier, mainly due to a marked decline in dairy origin calf retention during the spring of 2003 (down 33 percent on 2002) because of weak beef prices. This decision represents a farmer cost/profit analysis based upon price projections for the two years needed to bring these animals to mature slaughter weight. No more than a one percent increase in New Zealand's dairy cattle herd is anticipated for 2004 as the pace for dairy farm conversions slows in response to lower milk prices.

BEEF AND VEAL PRODUCTION

New Zealand's total cattle slaughter is forecast to decline 3 percent to 4.03 million head in 2004 due to lower processing levels for all cattle categories. This will be influenced by:

- 1) A 6 percent increase in 2004 in the number of dairy calves retained for beef production. Despite this increase, retention rates remain significantly below levels recorded earlier this decade.
- 2) The reduction in farmer retention rates for young dairy calves experienced in 2002 is now being felt in a reduced slaughter for 2004. These animals take two years to reach mature weight levels. Lower beef prices now being seen by farmers due a stronger New Zealand currency is negatively impacting on producer decisions to retain young dairy calves for meat production. The New Zealand dollar is projected to remain strong throughout 2004. Veal production in 2004 will be down 3 percent in response to the increase in young dairy calf retentions.

BEEF EXPORT DEMAND

Beef export demand is not expected to be significantly different to the outlook described in post's 2003 Annual Livestock Report (NZ3013). To date, the discovery of a case of BSE in the United States has not drastically altered New Zealand's export structure, but this could change during 2004.

BSE

The detection of BSE in the United States has affected other beef producing/exporting countries, including New Zealand. Key marketing issues for New Zealand resulting from the BSE incident relate to the potential impact on consumer demand in the United States and other importing markets. New Zealand's beef industry places a high priority on maintaining access to the U.S. market for its beef sales.

Initially, some less informed participants within New Zealand's meat industry expressed the belief that New Zealand would reap significant marketing benefits from the U.S. BSE case

based upon an expectation that New Zealand would fill supply gaps left in markets that barred the importation of U.S. beef. The majority of industry, however, quickly realized that rather than being beneficial, the marketing and economic impact on New Zealand of the BSE case in the United States was more likely to be negative. This conclusion has been conveyed in the majority of messages carried by the New Zealand media. New Zealand and U.S. beef tend to be complementary products, with New Zealand export shipments mainly occurring during lulls in the U.S. export season. U.S. beef exports to the United States consist mainly of manufacturing grade beef that is utilized for blending with U.S. product to achieve a leaner ground beef (hamburger meat). With exports to the United States accounting for approximately 50 percent of New Zealand's beef production (measured in volume terms), the New Zealand industry appreciates the importance to it for U.S. consumers to maintain their beef consumption levels. In other BSE incidents recorded outside of the United States, demand for beef experienced sharp declines. Demand in the United States for New Zealand beef, however, has remained strong following the BSE detection in December. U.S. manufacturing grade beef import price levels in the United States, quoted in U.S. dollars, have risen somewhat in recent weeks. The sharp appreciation of New Zealand's currency relative to the U.S. dollar over the past year, however, has resulted in a drop in returns to the local industry. With New Zealand's dollar expected to remain strong through 2004, the local industry can ill afford to experience weakening price levels in the United States.

New Zealand's industry is concerned that this may change as supplies in the United States build because of an inability to gain entry to overseas markets. Some New Zealand exporters have been tempted to fill supply gaps in Asian markets that have banned U.S. beef imports due to BSE. Importers from these countries have made enquiries with the New Zealand trade. A Japanese delegation visited New Zealand in January to determine if New Zealand beef could fill the gap left in the Japanese market resulting from the ban imposed on U.S. beef. Most industry participants, however, express the view that New Zealand's export sales patterns are not likely to change significantly as a result of the BSE case in the United States. New Zealand's beef export trade is well established based upon long-term business relationships with its trading partners and exporters will move cautiously in attempting to reap profits from what many view as only short-term marketing opportunities. The industry is aware of the difficulty in replacing U.S. beef in overseas markets because of the different taste characteristics of New Zealand pasture/grass fed beef compared to U.S. grain fed beef. Also, New Zealand beef cuts generally are targeted at the lower-priced restaurant trade while U.S. product tends to serve a different, more upscale market segment.

POLICY

U.S. Market Access

Because of the importance of the U.S. market to New Zealand's beef industry, maintaining access to the United States is viewed as critical by the local industry. USDA's introduction in January of new regulatory measures impacting beef slaughter has created concern on the part of both Government officials and the private industry. These new measures affect meat produced in the United States as well as imported meat. New Zealand's immediate response to the new measures was to assure the United States that New Zealand will meet the new rules. New Zealand, however, feels that the imposition of these new measures to its beef shipments entering the United States are not justified. New Zealand takes the view that because it is recognized as a BSE free country, the new guidelines do not provide additional food safety to U.S. consumers. New Zealand is likely to argue for a relaxation of the new USDA measures for New Zealand's beef shipments to the United States based upon an equivalency program tied to its BSE free status

New Zealand's protection against BSE

New Zealand has been declared free of Transmissible Spongiform Encephalopathies (TSEs) of animals, including BSE, by the Office International des Epizooties (OIE). The European Commission's Geographical BSE Risk Assessment (GBR) has classified New Zealand as a Category 1 country, meaning that it is highly unlikely that New Zealand domestic cattle are infected with the BSE agent.

There are several factors that support New Zealand's BSE free status. The fact that it is an island nation helps restrict the movement of animals and products across its borders. New Zealand has never allowed the importation of meat and bone meal for feeding to livestock. Regulations prohibiting feeding ruminant tissues to ruminants became effective in January 2000. The regulation replaced a voluntary industry ban that had operated since mid-1996.

The Ministry of Agriculture and Forestry (MAF) has maintained a TSE surveillance and monitoring program since 1990 to support the international acceptance of New Zealand's TSE free status. It is designed along the guidelines provided by the OIE. New Zealand's TSE surveillance program covers testing from animals on-farm and testing from animals at slaughter. All imported animals are inspected annually and tested when presented for slaughter at an abattoir.

The on farm testing regime is supported by an awareness campaign aimed at veterinary practitioners and farmers. Under New Zealand's Biosecurity Act (1993), all animals suspected of suffering from a TSE must be reported to MAF. Only animals over two years of age are tested and the tests are performed at a MAF accredited private laboratory.

At New Zealand's abattoirs, MAF has established an annual testing level of 2,000 animals. Target animals tested fall into categories recognized as exhibiting a higher risk of BSE such as, but not restricted to, animals found dead in the yards, animals condemned either pre- or post-slaughter, and all imported animals. If the total number of animals taken from these high risk categories is insufficient to meet the 2,000 target figure, the remainder is taken from random sampling of cattle two years of age or older. All samples are tested at a MAF laboratory.

Greenhouse Gas Research Levy Update

In November 2003, the New Zealand government dropped its proposal to tax farmers NZ\$ 8.4 million annually to fund research into reducing ruminant gas emissions (nitrous oxide and methane) in order to better meet its future obligations under the Kyoto protocol. This decision was reached after farmers waged a nationwide protest campaign against the proposal. Many within the industry view this as a hollow victory since this research will now be funded by the Pastoral Greenhouse Gas Research Consortium, itself a consortium of farmer-funded industry organizations.

Meat and Wool Industry Restructuring

The New Zealand meat and wool industries continue to undergo significant restructuring. The New Zealand Meat Board (operating under the name of Meat New Zealand) is in discussion with the Government on amending existing Meat Board legislation. The Government introduced in late 2003 its Meat Board Restructuring Bill, which it anticipates will be approved by Parliament by mid-2004. The Bill proposes to further restrict the regulatory

authority of the Meat Board to managing export quota allocations given to New Zealand by other countries. Activities previously managed or carried out by the Meat and the Wool Boards which are identified as "industry good" will be turned over to a new joint industry organization called Meat and Wool New Zealand which 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.

The referendum allows producers 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. Dairy farmers were also allowed to participate in the referendum since it was recognized that they supply animals for meat production. Industry Good activity is a broad categorization that includes market development efforts, market access, research and development. The new operating environment requires the new industry-good organization to demonstrate to farmers a positive return on their levy investment in each of the key activity areas.

The Meat Board will continue as a statutory body, separate from the industry-good body (Meat and Wool New Zealand). This will guarantee that the quota management function will remain viable in the event that farmers should decide to discontinue paying levies to fund industry-good activity. Farmers voted to continue funding market development activity to promote meat sales/consumption with annual funding levels of NZ\$ 9.1 million over the next 5 years. In contrast, wool producers voted not to utilize their levy assessments to conduct market development activity. Funding levels for promotional activity in 2004 will be similar to promotional budgets in recent years, which varied between approximately NZ\$ 8 million and NZ\$ 12 million. However, with the total farmer levy in 2004 set at NZ\$ 20 million compared to approximately NZ\$ 26 million in the mid 1990's, market promotional activity is being given a higher priority by producers. Meat and Wool New Zealand promotional funds will be dedicated to generic marketing activities that promote New Zealand meat when jointly carried out with New Zealand exporters and foreign importers. Matching contributions will be negotiated on an individual case-by-basis basis.

Approximately 60 percent of all producer funding for market development activities to promote export sales of New Zealand's red meat will be allocated to beef and the 40 percent remainder will be directed to sheep meat. These proportions represent producer assessment contributions to the NZ\$ 9.1 million. Beef promotional activity will be focused on the restaurant and food service trade in Asia, particularly in key North Asian markets such as Japan, Hong Kong, Korea, and Taiwan. 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. New Zealand beef exports to the United States largely consist of manufacturing grade beef that is used as a blending ingredient with U.S. product to produce ground meat. New Zealand beef entering the United States, however, does contribute to generic promotional activity funded under USDA's check-off program.

Trade Certification with China Update

Veterinary protocols between New Zealand and China were recently concluded; and New Zealand's meat industry is waiting for the audit report of New Zealand's quality assurance systems to be published (See NZ3013). This will allow exporters better access to the Chinese market and will support ongoing efforts to achieve a broader based trade agreement with China. Although New Zealand beef has been exported to China in the past, the new protocols will help solidify this trade since it allows for improved access into the Chinese market. They are not, however, expected to have a noticeable impact on the quantity or total value of beef exported to China.

MARKETING

'Beef Alliance' Update

A generic beef promotional campaign aimed at increasing consumption in Taiwan was undertaken jointly by the United States, New Zealand, Australia, and Canada called the 'Beef Alliance'. Launched in April 2003, the campaign was considered a success by Meat New Zealand. Meat New Zealand funded some additional country specific promotional activity after the campaign was completed. New Zealand was eager to continue funding the 'Beef Alliance', but this view was not shared by all three of the other members.

Hong Kong Promotion

Meat New Zealand organized a promotion targeted at customers of Western style, mid-priced restaurants and steak houses in Hong Kong. The methods used included large advertisements in lifestyle magazines, New Zealand beef branding at the point of order, waiters' aprons and placemats. The promotion emphasized the health and nutritional benefits of New Zealand beef. An incentive program was launched, with every purchase of five meals of New Zealand beef allowing customers to be placed in a draw to win either a return trip for two to New Zealand, a golden cow, or vouchers to dine at participating restaurants. Industry participants in Hong Kong reported positive results from the promotion, although its long-term effect on sales has not been assessed.

Long-term Impact of SARS

New Zealand beef volumes sold through the airline industry and to the restaurant trade dropped by as much as 50 percent during the 2003 SARS outbreak experienced in several Asian countries. This was offset to some extent by increased supermarket sales. With the lifting of travel advisories imposed by the World Health Organization to affected countries, eating and travel patterns are no longer negatively impacted by SARS. The local industry believes that the SARS outbreak did not result in long-term damage to New Zealand's beef trade and sales have returned to normal levels in the region.