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Report Highlights: New Zealand's cattle population grew 3.5 percent to 9.6 million mainly driven by an increasing dairy cattle herd. Beef and veal production in 2002/03 is forecast to increase 2 percent, with exports rising 4 percent. Sheep numbers increased to 44.7 million but lamb production and exports in 2002/03 are forecast to decrease somewhat. The industry strives to increase sales of lower grade manufacturing beef in markets outside the U.S. and Canada.

Includes PSD changes: Yes
Includes Trade Matrix: No
Unscheduled Report
Wellington [NZ1], NZ

SECTION I: SITUATION & OUTLOOK

As of August 1, 2002, total cattle numbers in New Zealand were estimated at 9.59 million head, an increase of 3.5 percent over the previous season. This included 5.01 million head of beef cattle, an increase of 4.8 percent over the previous season due largely to good beef prices and high retentions of dairy origin calves for beef production in the spring of 2000 (710,000) and 2001 (615,000). However, the increase also is partly driven by an increase in 'trading' stock rather than 'breeding' stock (although, breeding stock numbers have also increased) as good autumn/winter weather and an expectation of continued good beef prices have provided farmers with the option of holding on to stock longer this season.

The dairy cattle herd increased to 4.58 million (up 2 percent) following a sharp increase (3.4 percent) in the previous year. North Island dairy cattle numbers increased only slightly (0.4 percent). In contrast, South Island numbers increased 7.4 percent (75,000) to 1.09 million. This increase follows a 15.2 percent increase in the previous year and reflects the consolidation of dairy farm conversions in previous years as well as 63 new dairy farm conversions from sheep and beef farms in 2002-03. The total cattle population is forecast to decrease slightly to 9.51 million by 2003-04.

Total beef and veal slaughter numbers for 2002-03 are forecast at 3.80 million, an increase of 4.7 percent over the 2001-02 season's 3.63 million head. Bobby veal slaughter is due to increase to 1.48 million head, up 9.6 percent over the previous season's 1.35 million head. This reflects a continuing increase in the number of dairy calves born and the expectation that dairy-origin calf retentions for bull beef production will decrease Dairy calf retentions for bull beef finishing are expected to decrease to approximately 545,000 for the spring of 2002, reflecting an expectation that beef prices will decrease from 2004-05 onwards.

Beef production for 2002-03 is forecast to increase 1.9 percent over the 2001-02 season to 606,006 MT CWE reflecting high retentions of bobby calves in the spring of 2000 and 2001 and a 1 percent increase in carcass weight to 262 kg due to a change in slaughter composition. Veal production for 2002-03 is forecast to increase 12.7 percent to 25,700 MT CWE due to increases in slaughter numbers and higher slaughter weights (up 2.8 percent to 17.37 kg). Consequently, total beef and veal production is forecast to increase 2.3 percent. Beef export production in 2002-03 is forecast to increase 3.9 percent to 539,000 MT CWE**.**

Total sheep numbers in July, 2002 were estimated at 44.7 million. This is a 1.6 percent increase from the previous year and is the first increase in sheep numbers since 1987-88. The increase reflects good feed levels, farmers growing out stock, and the replacement of depleted stock levels after the 2000-01 drought. A part of the increase is in "trading" stock as farmers have taken advantage of the favorable autumn/winter weather and good prices to carry a higher than ususal number of lambs past the end of June. It is expected that these lambs will contribute to prime lamb production in the September quarter. The lambing percentage is estimated to set a new record at 120 percent for the spring of 2002, slightly up from the previous season's 119 percent. Breeding ewe numbers for the first time since 1957 fell below 30 million to 29.9 million (down 1.4 percent from the previous year). A higher lambing percentage combined with lower breeding ewe numbers is expected to lead to a lamb crop for the

spring of 2002 of 35.9 million (down 0.5 percent from the previous season). The outlook for sheep numbers is to decline slightly (1.4 percent) to 44.08 million by July, 2003. This decline reflects continuing pressure on sheep numbers from dairy, deer farming, forestry and other land use changes, coupled with expectations of more normal seasonal conditions with fewer hoggets held over for winter finishing.

Total sheepmeat production is expected to increase slightly (1 percent) to 543,900 MT CWE after a decrease of 4.4 percent in 2001-02. The increase is due to increased mutton slaughter numbers, which will be up 5.1 percent over 2001-02 as sheep numbers resume their decline due to continued land use conversions to dairy, deer, forestry, and farming policy shifts from sheep to beef. Sheepmeat exports are forecast to decrease slightly (0.8 percent) to 505,500 MT CWE reflecting a 1.4 percent reduction in breeding ewe numbers from 2001-02 and a slightly reduced lamb crop and slightly lower lamb slaughter weights for 2002-03 (down 1.4 percent to 16.58 kg fro the 2001-02 record weight of 16.82 kg). Export mutton slaughter will be up 4.5 percent to 98,900 MT CWE as sheep numbers resume their decline. The increased slaughter numbers reflect a return to normal levels in all New Zealand regions following the impact of the summer and autumn 2001 drought.

SECTION II: STATISTICAL TABLES

PREAMBLE TO PS&D CATTLE NUMBERS 2000-2001

We have reduced our estimate of the increase in NZ's total cattle population in 2000-01 from a previously reported figure of 240,000 down to 90,000. This yields a total population estimate of 8.96 million and reflects the current thinking of The Economic Service of New Zealand. FAS Wellington's new estimate is now in agreement with informed industry sources.

PS&D TABLE – CATTLE NUMBERS

PSD Table						
Country	New Zealand					
Commodity	Animal Numbers, Cattle				(1000 HEAD)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Total Cattle Beg. Stks	9742	9220	10221	9270	10551	9590
Dairy Cows Beg. Stocks	3628	3360	3701	3480	0	3550
Beef Cows Beg. Stocks	1600	1479	1616	1494	0	1509
Production (Calf Crop)	4420	3443	4663	3980	0	3739
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	14162	12663	14884	13250	10551	13329
Intra EC Exports	0	0	0	0	0	0
Other Exports	8	8	8	8	0	0
TOTAL Exports	8	8	8	8	0	0
Cow Slaughter	949	2180	1063	2281	0	2318
Calf Slaughter	1374	1180	1576	1350	0	1480
Other Slaughter	1510	0	1576	0	0	0
Total Slaughter	3833	3360	4215	3631	0	3798
Loss	100	25	110	21	0	21
Ending Inventories	10221	9270	10551	9590	0	9510
TOTAL DISTRIBUTION	14162	12663	14884	13250	0	13329
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

PS&D TABLE – SHEEP NUMBERS

PSD Table						
Country	New Zealand					
Commodity	Animal Numbers, Sheep				(1000 HEAD)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
TOTAL Beginning Stocks	0	45159	0	43990	0	44700
Ewes, Beginning Stocks	0	32190	0	30311	0	29900
Production (Lamb Crop)	0	35700	0	36077	0	35900
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	0	80859	0	80067	0	80600
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	33	0	20	0	0
TOTAL Exports	0	33	0	20	0	0
Ewe Slaughter	0	5407	0	4625	0	5390
Lamb Slaughter	0	26218	0	26000	0	25167
Other Slaughter	0	5074	0	4600	0	5513
TOTAL Slaughter	0	36699	0	35225	0	36070
Loss	0	137	0	122	0	130
Ending Inventories	0	43990	0	44700	0	44400
TOTAL DISTRIBUTION	0	80859	0	80067	0	80600
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

PS&D TABLE – BEEF/VEAL PRODUCTION

PSD Table						
Country	New Zealand					
Commodity	Meat, Beef and Veal				(1000 MT CWE)(1000 HEAD)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Slaughter (Reference)	3833	3360	4215	3631	0	3798
Beginning Stocks	27	27	17	0	8	0
Production	600	590	635	616	0	632
Intra EC Imports	0	0	0	0	0	0
Other Imports	12	7	13	9	0	11
TOTAL Imports	12	7	13	9	0	11
TOTAL SUPPLY	639	624	665	625	8	643
Intra EC Exports	0	0	0	0	0	0
Other Exports	495	516	530	519	0	539
TOTAL Exports	495	516	530	519	0	539
Human Dom. Consumption	127	108	127	106	0	104
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consumption	127	108	127	106	0	104
Ending Stocks	17	0	8	0	0	0
TOTAL DISTRIBUTION	639	624	665	625	0	643
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	297	278	303	303	0	303

PS&D TABLE – SHEEPMEAT PRODUCTION

PSD Table						
Country	New Zealand					
Commodity	Meat, Lamb, Mutton and Goat				(1000 MT CWE)(1000 HEAD)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Slaughter (Reference)	0	36699	0	35225	0	36070
Beginning Stocks	0	44	0	0	0	0
Production	0	563	0	538	0	544
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	8	0	8	0	6
TOTAL Imports	0	8	0	8	0	6
TOTAL SUPPLY	0	615	0	546	0	549
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	534	0	509	0	506
TOTAL Exports	0	534	0	509	0	506
Human Dom. Consumption	0	81	0	37	0	43
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consumption	0	81	0	37	0	43
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	0	615	0	546	0	549
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	28	0	32	0	36

SECTION III: SUPPLY, DEMAND, AND MARKETING

CATTLE

STOCK NUMBERS

As of July 1, 2002, total cattle numbers increased 3.5 percent to 9.59 million head reflecting an expectation of good beef prices until 2004-05. The increase is driven by high retentions of dairy origin calves for bull beef production in the springs of 2000 and 2001, further consolidation of previous dairy farm conversions as well as new dairy farm conversions from sheep and beef farms in 2002-03. Beef cattle numbers continue to increase from their 1998 low point reaching 5.01 million (up 4.8 percent). Lower numbers of dairy-origin bull calves are expected to be retained in the spring of 2002 as the appreciating exchange rate and an expected increased U.S. beef slaughter from 2004-05 onwards will lower future beef prices. Even so, retentions are estimated at 545,000 head for the spring of 2002. Dairy cattle numbers at June 30, 2002 increased 2 percent reflecting a decreasing rate of conversions of sheep and beef farms to new dairy farms. The total milk price payout forecast by Fonterra for 2002-03 indicates a decline in milk payouts by as much as 30 percent, which is expected to slow the trend of increasing dairy cattle numbers.

The outlook to July 1, 2003, is for beef cattle numbers to decrease slightly from 5.01 million to 4.93 million head as farmers are expected to sell 'trading' stock they are currently holding on to in the September quarter. By 2006, beef cattle numbers are expected to decrease to 4.72 million due to an expectation of declining beef prices. The dairy cattle herd is forecast to increase slightly, but overall the total cattle population is forecast to decrease to 9.51 million by July 2003.

BEEF AND VEAL – PRODUCTION

Total beef and veal slaughter for 2002-03 is forecast to be 3.8 million head, an increase of 4.7 percent from the 2001-02 season. The bobby veal slaughter has increased to 1.48 million head, up 9.6 percent on the previous season. This is due to an increase in the number of dairy calves born and the expectation of a lower retention of dairy-origin calves for bull beef production in the spring of 2002 (down to 545,000 head), as beef prices are expected to ease from 2004-05 onwards.

The total calf crop will be lower in the spring of 2002, as the calving percentage is expected to decrease due to low pasture nutrient levels at mating time. Bobby calf export slaughter weights for 2002-03 are forecast to lift 2.8 percent to 17.37 kg. Coupled with increased slaughter numbers this will lift production 12.3 percent to 25,700 MT CWE (the highest level on record).

Beef production is forecast to increase to 606,006 MT CWE (up 1.9 percent on the previous year). Export cattle slaughter weights in 2002-03 are estimated to be 262 kg (up 1.1 percent on the previous year) making it the second highest on record. Export beef production is forecast to be up to 513,800 MT CWE (up 3.6 percent on the previous year). Total beef and veal production is up to 631,706 MT CWE (up 2.3 percent). Export grade beef and veal production will increase to 539,500 MT CWE (up

4 percent). The increase in slaughter numbers is a reflection of the increasing cull cow numbers from a growing dairy herd. This has the further effect that manufacturing grade beef, and to some degree bull beef production, is accounting for an increasing proportion of total beef production.

Short-term change in export beef composition

In recent years the composition of New Zealand's beef exports has changed. Proportionately more manufacturing grade beef is now produced due to an increasing dairy cattle herd and cull cows, high levels of dairy-origin calf retentions for bull beef finishing, and an ongoing conversion of sheep and cattle farms to dairy, deer and forestry. Cattle from the dairy industry tends to produce manufacturing beef, rather than prime cuts such as rump or sirloin. Despite an increase in the numbers of prime breeding cows, which are forecast to peak in 2003-04 at 1.524 million (90,000 cows less than during the previous peak in 1995-96) the ratio of manufacturing grade beef to prime grade beef has increased. In 1994-95 prime beef production accounted for 48 percent, which is now forecast to fall to 35 percent in 2002-03. The proportion of manufacturing grade beef is forecast to be 65 percent of total exports in the 2002-03 season.

Retentions of dairy-origin calves are forecast to decrease 11 percent to 545,000 for the spring of 2002 due to an expectation of increasing U.S. beef supplies from 2004 onwards, and bull beef production is forecast remain high until 2003-04 before declining in response to the U.S. beef cycle. In the short term, this means that manufacturing grade beef will make a significant proportion of total beef exports. However, forecasts of a steadily increasing dairy cattle herd may not occur because dairy payout forecasts for the 2002-03 season have recently fallen significantly. This could lead to a stagnation of cow numbers from previous dairy farm consolidations and conversions undertaken during the last two years. For example, financial analyses undertaken by MAF indicate that the profitability for 25 percent of the lowest performing dairy farms is severely compromised at payouts lower than NZ$ 3.50 (US$ 1.61) per kg milksolids. Some industry commentators indicate that payouts may fall to NZ$ 3.30 (US$ 1.52) to 3.40 (US$ 1.56) for the 2002-03 season if commodity prices do not show signs of rapid improvement.

BEEF DEMAND

Most of New Zealand's lean manufacturing beef is exported to the U.S. and Canadian markets which pay the highest prices for this meat grade. However, quota restrictions in these markets and increasing competition from other beef exporting countries will mean that growing volumes of New Zealand manufacturing grade beef will have to be exported to alternative markets (as the proportion of manufacturing grade beef increases). Some exporters already are diverting some of their secondary beef cuts to Asian and Pacific region markets. The immediate challenge for exporters will be to find new markets for increasing volumes of manufacturing beef, but according to industry officials, this may simply mean that New Zealand meat producers will face a period of lower prices while the surplus of manufacturing beef flows through the supply chain. The long term outlook for NZ beef will be affected by competition from other exporters and protein sources (white meats), food safety and animal welfare issues, sluggish demand from Asia (especially Japan), and the volume of manufacturing grade beef.

New Zealand's export earnings from NZ beef are forecast to decrease 4 percent to NZ$ 2.24 billion (US$ 1.03 billion) in 2002-03 due to two factors. First, an anticipated appreciation of the NZ dollar to NZ 50 cents per 1 US$ would reduce the export price for beef by 7 percent (a 10 percent increase in the value of the NZ $ decreases farm gate returns by 15 percent). This includes the expectation of higher prices in the key U.S. market. However, there is currently little agreement among currency analysts at what level the exchange rate will average out over the coming 12 months. Second, New Zealand beef exports represent a commodity business with prices determined by world supply and demand.

New Zealand's main export markets are the U.S., Canada, North Asia (Korea, Taiwan, Japan), South Asia (Malaysia, Indonesia, Singapore, Philippines) and the Pacific region. Exports to the U.S. and Canada are restricted by country specific tariff quotas (CSTQs), with Canada also issuing extra supplementary permits to ensure Canadian demand is met by imports due to the current export ban on beef from Argentina and Uruguay. New Zealand also has a small (300 MT) high quality beef quota into the EU. The U.S. and Canada are the most important export markets for New Zealand as they take 73 percent of total beef volume shipped while providing 71 percent of FOB receipts (as of April 2002).

Quota Markets

New Zealand exports for the 2002 calendar year are forecast to fill the CSTQ of 213,402 MT (product weight) to the U.S. As of June 30, 2002, New Zealand had filled approximately 60 percent of that quota. According to industry officials, it is likely that only a small above-quota volume will be placed in bonded storage in December 2002. Approximately 69 percent (up 2 percentage points over 2001) of beef exports to the U.S. are of manufacturing quality (i.e. grinding beef used in burger patties), while the remainder, although being of prime beef quality, is mainly semi-processed product used in delicatessen outlets. McDonalds is currently conducting marketing trials for New Zealand (and Australian) grass-fed beef in its hamburgers. This move results from a shortage of U.S. lean beef and high prices. If McDonalds joins Burger King, Wendy's and other chains in importing Australian and New Zealand beef, prices may increase as beef import quotas restrict supply.

Exports to Canada are forecast to be similar to 2001, when New Zealand filled its CSTQ of 29,600 MT (product weight) as well as supplementary permits of approximately 11,000 MT. As of June 30, 2002 New Zealand had exported nearly 35,000 MT, 7 percent more than at the same time a year earlier. New Zealand's 29,600 MT (product weight) CSTQ with Canada has been filled 85 percent. New Zealand also has supplied 34 percent of supplementary permits issued. Nearly 60 percent of beef exports to Canada are of manufacturing grade quality. Industry officials in New Zealand expect that Argentine beef will remain banned in the North American and Japanese markets during 2003. New Zealand hopes to obtain similar access to the Canadian market in 2003 as it did in 2002. A high quality EU quota of 300 MT is also forecast to be filled in 2002, but attempts by the New Zealand industry to increase the EU quota are unlikely to be realized outside of WTO negotiations.

North Asian Markets

North Asia is New Zealand's second largest beef export market region. For the 12-month period ending June 2002, these markets accounted for 13.5 percent of beef exports on a volume basis (46,365 MT). Japan has slipped from being New Zealand's third largest market with exports down 25 percent (to 13,513 MT) for the 12-months to June 2002. However, beef exports to South Korea doubled in the same period to 17,948 MT. Taiwan also imported more beef (up 2,892 MT to 14,903 MT). Meat cuts in the North Asian market are predominantly secondary cuts for the hotel and restaurant trade.

The outlook for 2002-03 in South Korea is positive with exports expected to increase if no further FMD outbreaks occur. The recent removal of the prohibition to freeze chilled beef should further improve prospects for increasing NZ exports into this market. The Taiwanese market, where beef accounts for a relatively small portion of total meat consumption, is forecast to provide good export potential due to good consumer demand, reduced tariffs, a gradual recovery in the economy, and the continued absence of Argentine beef. The outlook for the Japanese market remains weak due to ongoing concerns over BSE, recent labeling scandals, and a weak Japanese economy. While consumption in Japan is slowly recovering, prices remain depressed.

South Asia

Beef exports to South Asia for the 12 months to June 2002 accounted for 4 percent of total New Zealand beef exports by volume (13,482 MT product weight). This is down 22.4 percent on the same period in the previous season, driven by higher prices for New Zealand beef (up 11 percent) and strong competition from Indian buffalo and Brazilian product. Export prospects remain reasonable for South Asia in 2002-03.

BEEF MARKETING AND R&D

To cope with increasing volumes of beef originating from the dairy industry that needs to be sold outside North America, New Zealand's beef industry is developing new and emerging markets through promotional activities and increasing the proportion of higher quality meat cuts from carcasses through R&D. Promotional activities in the U.S. market are restricted to business to business relationships/activities as most of the beef exports to the U.S. consist of ingredient beef. However, New Zealand exporters try to assure U.S. customers of food safety and animal husbandry practices that adhere to animal welfare codes.

North Asian Markets

The confirmation of BSE in Japan in October 2001 has led to a decline in consumer confidence and has had a serious effect on NZ beef sales. Since the mislabeling cases earlier this year and a suspicion among Japanese consumers that beef imports, in general, are not trustworthy has meant that New Zealand has kept a low profile in this market. Promotional activities in the Japanese market are not planned, as industry officials see no advantage in spending funds when BSE scares have not yet settled; and where consumers have more trust in Japanese beef than in beef from BSE-free countries. The New Zealand import share is very small (2 percent) and most New Zealand beef exports to Japan consist of secondary cuts for the food service industry. However, New Zealand meat is now labeled with "BSE-free" stickers. Approximately NZ$ 1 million (US$ 46 million) is allocated to this market for promotional activities.

In Taiwan, the New Zealand meat industry and exporters have invested in a pilot promotion to ascertain if further investment in this market is warranted. A joint campaign focused on the unique nutritional values of beef to encourage consumers to buy and eat more beef. Market research has shown that country-of-origin is not a factor that influences purchasing decisions but rather consumers are more concerned about knowing that the product they are buying is nutritious and beneficial for them and their families.

As of July 1, 2002, the Korean National Veterinary Research and Quarantine Service has removed a prohibition on freezing chilled meat once it has entered the distribution system. Importers and end-users will now be able to freeze down chilled product for subsequent sale as frozen beef. This will allow for greater flexibility in the distribution of imported meat and should benefit NZ exporters as it removes what was considered a significant non-tariff barrier. New Zealand exporters have welcomed the decision because it provides them with more opportunities to develop high-end markets for chilled beef and lamb.

Meat New Zealand has just launched its first foreign language web site in Korea. Koreans are the world's number one users of the Internet, using it twice as often as Americans – the number two users in the world. According to Meat New Zealand, Korean consumers like to have access to background information before making purchase decisions. The website is targeted at consumers and food service people featuring information about New Zealand as a clean and green country and about New Zealand beef being the healthiest and most naturally farmed beef in the world.

Organic beef potential in Japan

Increasing awareness of beef feeding systems is leading to a market segmentation of grain-fed vs. pasture-fed beef over BSE (bovine spongiform encephalopathy) concerns among Japanese consumers. This in turn could open opportunities for New Zealand organic beef producers according to a Japanese scientist recently visiting New Zealand. Japanese consumers have been suspicious of the quality of imported beef but demand and consumption has increased and people now seek quality imported beef from overseas pasture-based systems. However, to date New Zealand is only a minor player in the Japanese market, with Australia (fresh or chilled) and the U.S. (frozen) contributing 95 percent of

Japan's beef imports. More than 70 percent of imported NZ beef is frozen and considered unsuitable for direct consumption as a table meat.

New Zealand beef promotion at Singapore food fair

Meat New Zealand had a presence at the biggest regional trade fair in Asia, held in Singapore. Approximately 40,000 visitors from countries including Hong Kong, Thailand, China, the Philippines, Malaysia and Indonesia attended the food fair. The New Zealand stand included displays by 5 major New Zealand meat exporters and generated high levels of interest, especially from the food service industry. New Zealand exporters made contact with major importers, retailers and chefs, who took the opportunity to investigate new products and meet suppliers.

New Zealand beef promotion in French Polynesia

Meat New Zealand recently launched a promotion of New Zealand beef in French Polynesia at a trade function in Tahiti. A range of French point of sale information kits and promotional material was distributed at the function, focusing on New Zealand's 'clean and green' image. French Polynesia is New Zealand's fourth largest market for chilled beef after the U.S., Canada, and Japan. Beef sales have been aided by the fact that the main competitor, Ireland, cannot export to French Polynesia due to BSE concerns. However, with a weak Japanese beef market Australian exports may threaten New Zealand's position. New Zealand beef is considered to be of high quality in French Polynesia (beef exports to French Polynesia were up 42 percent for the 12 months to June 2002, with 5,925 MT).

Research shows New Zealand grass-fed beef beneficial to health

New research shows that New Zealand beef has a good ratio of omega three fatty acids to omega six fatty acids (ie. 2:1), which is closer to the optimum than for grain-fed beef (ie. 12:1). Omega three fatty acids are particularly important for heart health. Meat New Zealand comments that this may prove to be a unique opportunity to differentiate New Zealand beef worldwide as healthier and better as a direct result of the natural environment in which it is raised. Meat New Zealand is investing into further research to identify other factors New Zealand beef has that makes it so nutritious, and what properties it has that could lead to making better use of all the cuts available. The outcome has shown that 10 of 32 hind and forequarter muscles profiled were not used as table steaks even though they could have been.

Prime Beef Cuts from Manufacturing Beef

Extracting more beef cuts from manufacturing grade beef carcases has become a prime R&D focus. Technology to predict carcass quality will be increasingly employed to maximize the recovery of prime cuts. The technologies employed include: measuring the pH of a carcass, identifying individual muscle functional properties, stimulating individual carcasses with electrical currents, manipulating muscle shape, immersion chilling, and improving pre-slaughter practices to minimize stress animals experience.

SHEEP

STOCK NUMBERS

Sheep numbers at 30 June 2002 increased 1.6 percent to 44.7 million as farms affected by drought in the 2000-01 season rebuild flock numbers and other farms carry increased numbers of hoggets for winter finishing (up 10.5 percent) in the September quarter of 2002. The increase in numbers over the previous year of 43.99 million is partly due to farmers holding over 'trading stock' rather than 'breeding' stock, as weather conditions in autumn/winter and prices remained favorable. North Island sheep numbers were up 0.6 percent and South Island sheep numbers were up 3.8 percent due to flock rebuilding. At current, sheep numbers on North and South Island are split approximately 44 and 56 percent. However, the outlook is for sheep numbers to ease back to 44.4 million (-0.7 percent) to make way for increased numbers of dairy cattle, deer, and forestry, coupled with an expectation of more normal seasonal conditions with fewer being hoggets held over for winter finishing in 2003.

Breeding ewe numbers for the first time since 1958-59 have dropped below 30 million (down 1.4 percent from the previous season). The largest decline of breeding ewe numbers occurred in the Southland region (down 3.2 percent) reflecting on-going conversions of sheep and beef farms to dairy and deer units. Ewe numbers have also declined in Marlborough-Canterbury, which is thought to be caused by a lack of replacement ewes, following the 2000-01 drought. Favorable climatic conditions leading up to mating gives rise to expectations of a higher lambing percentage in the South Island (but slightly lower in the North Island) leading to an estimated 120 percent lambing, up 1 percentage point over the record in spring 2001. The combination of a higher lambing percentage but slightly lower breeding ewe numbers should provide a lamb crop of 35.9 million, down only 0.5 percent from the 2001 spring.

LAMB, MUTTON & WOOL – PRODUCTION

Total lamb production in 2002-03 will decrease slightly to 421,800 MT CWE (down 2.7 percent) due to a smaller lamb crop and lower carcass weights, but offset by an increase in lambing percentage. Lamb carcass weights are expected to be down only 1.4 percent to 16.58 kg underpinned by the expectation that fertilizer usage will be high and pasture growing conditions will be favorable. Over the last decade, improved flock genetics and better feed management have also contributed to improved slaughter weights. Export lamb production is forecast to ease 2 percent to 406,600 MT CWE in 2002-03.

Mutton production in 2002-03 is forecast to increase 16.6 percent to 122,100 MT CWE while export mutton production is forecast to increase 4.5 percent to 98,900 MT CWE due to the continued decline of the sheep population to make way for other livestock. Although, forecast slaughter weights are down 0.4 percent to 23.11 kg. Total sheepmeat production is expected to increase 1 percent to 543,900 MT CWE and total export sheepmeat production to decrease slightly (0.5 percent) to 505,500 MT CWE as total domestic consumption increases slightly in line with New Zealand's larger population.

Total shorn wool and slipe production for 2002-03 is forecast at 189,936 MT (clean) up 2.8 percent over the 2001-02 level. This reflects a lift in sheep numbers to June 30, 2002, coupled with a slightly higher per head clip (up 1.4 percent). Shorn wool production in 2002-03 will increase in all regions except Northland, Waikato, and Bay of Plenty. The estimated increase in the per head clip reflects recovery from the 2001 drought as well as good feed conditions going into the 2002 winter. Total per head wool production is forecast to increase 1.4 percent to 5.65 kg (greasy) reflecting better wool-growing conditions in 2002-03. Wool production will be the second highest in the last five years.

Total shorn wool production for 2002-03 estimated at 163,445 MT clean will be up 2.9 percent over the 2001-02 level. Slipe wool production estimated at 26,491 MT clean will be up 1.9 percent in 2002-03 reflecting a slight overall increase in slaughter numbers to September 2003.

Shearing patterns in 2002-03 should return to normal following delayed shearing in 2001-02 caused by a wet summer and a shortage of shearers. Lamb shearing and pre-slaughter second shearing are expected to continue at current high levels as some meat companies pay a premium for shorn lambs for hygiene reasons.

LAMB, MUTTON, AND WOOL DEMAND

For 2002-03 lamb export receipts are forecast to decrease 1.8 percent to NZ$ 2.39 billion due to an appreciating NZ dollar and the fact that prices were high in 2001-02. This reflected lower sheepmeat production in the EU following the FMD outbreak in the UK, the removal of the tariff quota in the U.S. and increased quantities of chilled product. Lamb cuts and boneless product made up 94.4 percent of shipment in 2001-02. Within the above, high value specialized chilled lamb products, mainly cuts and boneless product, made up 17.5 percent of exports in 2001-02, up 12.7 percent over the previous year. Frozen lamb carcass exports made up 5.6 percent of lamb shipment and were down from the previous June year of 8 percent.

Mutton, although essentially a by-product of lamb and wool production, makes a useful contribution to meat export receipts (5.6 percent) and is mainly used for institutional catering or ingredients in processed meat products. Mutton and skin prices are forecast to remain at good levels in 2002-03 but ease mainly as a result of the appreciation of the New Zealand dollar. Shipments of mutton will remain at similar levels to previous seasons, and as a result FOB mutton receipts in 2002-03 are forecast to decrease NZ$ 19 million (US$ 8.74 million – down 5 percent) to NZ$ 353 million (US$ 162.4 million).

For 2002-03, market prices for fine and medium wools are expected to increase, while prices for strong and lambs wools hold similar to 2001-02. However, an appreciating NZ$ means that only fine wool is expected to increase in NZ dollar terms, while medium wools hold similar, and strong and lambs wools decline in price. The longer term outlook is more positive with improving world economic conditions, and a shift in the fashion cycle towards natural fibers. New Zealand's export earnings from wool exports are forecast to decrease 0.4 percent to NZ$ 840 million in 2002-03.

European Union

New Zealand's EU tariff quota for sheepmeat (226,700 MT CWE), which currently accounts for 70 percent of EU sheepmeat imports, has been filled 73 percent as of August 2002. Shipments of New Zealand lamb to the EU for the 12 months to June 2002 were down 4.2 percent (7,059 MT shipped weight). Lamb shipments to the UK at 63,795 MT were down 8,579 MT (down 11.8 percent). France and Germany took 28,675 (up 6 percent) and 25,453 MT (down 12 percent) respectively in the period under review, while exports of New Zealand lamb to Belgium (14,018 MT) increased by 8.5 percent.

With European sheepmeat forecast to remain below levels prior FMD, demand for imported sheepmeat is expected to remain firm. Consumers are still reeling from food safety and animal health concerns, hence promotion and advertising of New Zealand lamb has resumed with a focus on lamb being safe to eat, as well as being tasty and easy to prepare. There are plans to export more chilled lamb to the EU market.

The major export region for mutton is the EU, which accounted for 52 percent of mutton shipments for the 12 months to June 2002, down 3 percent (or 942 MT) compared with the same period last season. The main importing countries in this region were the UK (44.6 percent), Germany (25 percent), France (11.6 percent), and Belgium (9 percent). Shipments to the UK were up 3.8 percent to 13,405 MT while Germany decreased its imports by 16.5 percent to 7,510 MT. The majority (99.9 percent) of mutton exports to the EU were in cuts or boneless (frozen or chilled) product form.

North America

North America is the second largest market region for the 12-month period to the end of June 2002, taking 44,522 MT of New Zealand lamb. This was up 1,564 MT (up 3.6 percent) on the previous year, mainly driven by increases to the U.S. market which rose 1,734 MT (up 9.2 percent). North America is a high priced market region due to the high proportion of high value chilled and frozen cuts (e.g. lamb racks) exported to this region. With the ending of the U.S. tariff rate quota scheme in November 2001, there is continuing opportunity for exports of New Zealand lamb to the U.S. to grow in future years. The outlook for the U.S. market is positive, as U.S. production continues to decline and demand for sheepmeat remains strong.

North & South Asia

New Zealand lamb shipments to North Asia (mainly China and Japan) of 31,225 MT were up 2,603 MT (up 9.1 percent) in the 12 months to June 2002 compared with the previous season. China and Japan were up 12.1 percent and 2.3 percent, respectively. China is now the fourth largest market four lamb (for low quality cuts such as breasts and flaps) just ahead of the U.S. Expansion of exports to China are likely to continue, while exports to Japan seem to be holding at relatively constant levels, although BSE concerns may assist lamb consumption in the restaurant trade.

North Asia (mainly Taiwan and Japan) is the second largest market region for New Zealand mutton.

Taiwan was the third largest importer of New Zealand mutton taking 6,048 MT in the 12 months to June 2002, essentially the same as last season. Taiwanese import tariffs have declined and it is expected that this market will continue to grow. Mutton exports to Japan (down 43.4 percent) were affected by higher prices and a drop in consumer spending. Malaysia was the fourth largest country destination for New Zealand mutton accounting for 87 percent of mutton exports to South Asia for the 12 months to June 2002.

Pacific & Middle East

Lamb exports to the Pacific region fell by a third (down 8,055 MT) in the 12-month period of 2001-02 to 18,219 MT. This reduction was consistent with lower New Zealand production and higher prices. For the 12 months to June 2002, lamb exports to this market declined by 10,755 MT (down 37 percent) to become the sixth largest market region. Saudi Arabia (11,709 MT) and Jordan (4,529 MT) are the dominant destinations within the Middle East and volumes to these two markets declined by 40.5 percent and 39 percent, respectively, for the 12 months to June 2002. The Middle East has a preference for lightweight carcasses, which may be easier to obtain in the 2002-03 season than in the 2001-02 season when per head lamb weight was at a record.

Mutton shipments of 3,687 MT to the Pacific region doubled in the 12 months to June 2002 compared with the same period in 2001. Forty-five percent each was exported to Fiji and Papua New Guinea. Similar to South Asia, half of these shipments were in carcass form, which kept the value down, and made mutton a competitive source of protein.

Exports of mutton to the Middle East recovered to 2,591 MT (up 39 percent) in the period under review. Oman is the main destination for New Zealand mutton exports to this region taking 2,009 MT (up 73 percent). Overall, exports to the Middle East are forecast to remain at similar levels in 2002-03.

South Africa

South Africa accounted for 1,561 MT of New Zealand mutton exports in the 12 months to June 2002, down 3,141 MT on the previous year. Increased mutton prices coupled with intense competition from other protein sources reduced mutton demand in 2001-02. A weak South African rand, high meat prices and a revised tariff regime are expected to affect this market in 2002-03.

LAMB, MUTTON & WOOL MARKETING AND R&D

US lamb market

Total lamb exports to the U.S. have increased by 9.2 percent to, in the 12 month period to June 2002. New Zealand chilled lamb trade with the U.S. was also up considerably and now represents nearly half of all the volume shipped. This success is attributed to a New Zealand joint venture company (New Zealand Lamb Co) between four meat processors - Richmond, Affco, Alliance and Anzco - which had

about 70 percent of the New Zealand meat import business in the U.S. and 99 percent in Canada. The New Zealand Lamb Co won a big Safeway supermarket supply contract away from Australia when the U.S. quota and tariff restrictions were lifted. It also took over Winn Dixie chain supply contracts, which had occasionally been specialing New Zealand lamb in supermarkets (which was cited by American lamb producers in the case against New Zealand and Australian lamb imports that led to the trade curbs).

New Zealand is a preferred supplier of lamb to a number of ethnic markets in the U.S. For instance, Muslims, who are natural lamb eaters, number 10 million in the U.S. Some New Zealand meat processors are also making progress in developing a rapid meat traceability procedure (soon to be commercialized), with food safety and the ability to guarantee it now ranked ahead of price and quality in world markets. According to industry, BSE and Foot and Mouth have reduced red meat consumption worldwide and confidence in the product is also constantly being eroded by animal health issues.

UK promotion

An advertising campaign run in the UK, during April and May, involved placing recipe advertisements in popular newspapers, aimed at consumers who are scanning through the paper on the way to or from work. These ads appeared 52 times in eight different daily newspapers and were headed 'It doesn't get any more free range than this'. The focus was on NZ's 'clean & green' image but without a direct reference to NZ's BSE- and FMD-free status. According to Meat New Zealand, the campaign was a success. A post-campaign analysis revealed an increase of 23 percent in awareness of New Zealand's status as a FMD and BSE-free meat producing country. Other campaigns are continuing, including advertisements in magazines and the release of two recipe booklets. New Zealand chef, Peter Gordon, is also featuring in 'Weekday Weekend'. The promotional budget for the UK was NZ$ 4 million (US$ 1.84 million), compared with NZ$ 0.5 million (US$ 230,000) for the rest of Europe.

Research may improve wool fibre variability

Research by Massey University and AgResearch may help prevent wool fibre variability in long-woolled sheep, leading to an increase in its value. Long-woolled sheep breeds in New Zealand have a seasonal pattern of wool growth, with high growth rates in summer and low growth rates in winter, leading to variation in fibre diameter and length growth rates. The variation reduces fibre strength and can lead to breaks in the wool, causing problems for processors. The wool study focuses on prolactin, a hormone whose secretion increases with day length and during lactation. It is associated with wool growth control in primitive and shedding breeds of sheep but its effects on wool growth on seasonal breeds is not well understood. The study results suggest that it may be possible to develop on-farm treatments to increase winter wool production, or to develop sheep resistant to day length and pregnancy-induced changes in follicle output.

GENERAL

Uruguay Round tariff cuts brought NZ$ 191 million to NZ meat

An assessment undertaken by the Ministry of Foreign Affairs and Trade has shown that the value of the tariff concessions secured by New Zealand in the Uruguay Round of multilateral trade negotiations, which concluded in 1994, had benefitted NZ meat by NZ$ 191 million (US$ 87.9 million). The gains came from the increase of 20,000 MT in the volume of sheepmeat New Zealand can send to Europe free of import duty, while beef benefitted from an increase in the low tariff import quota in the U.S. and substantial tariff reductions in Japan and Korea. However, substantial duties still remain. For example, the duties on beef entering Japan are 38 percent and Korea 40.8 percent.

Meat promotion group planned

A new Meat Promotion Group that is planned by the industry will include representatives from processors, export and local market servicing, and Meat New Zealand. The group will be responsible for identifying, developing and implementing any promotional strategies to increase consumption of New Zealand beef and lamb both internationally and domestically. It will also be responsible for setting the level of funding required to support any promotional activities, and for agreeing on who provides funding. Funding options include: individual companies contributing to fund activities, the whole industry becoming involved in funding, or in some instances exclusively producer levies could be used. Promotional spending will be a lot more focused to produce maximum impact, rather than spreading the available budget too widely.

Per capita meat consumption for New Zealand

	1998-99*	1999-00*	2000-01*	2001-02*
Per Capita Consumption (March Year, kg Per Capita)				
Lamb	9.3	12.5	10.7	9.9
Mutton	12.5	13.9	13.6	12.2
Beef	30.0	30.5	26.5	23.8
Bobby Veal	0.4	0.7	0.6	0.5
Red Meat	52.1	57.5	51.4	46.4
Chicken	26.8	28.7	31	32.4
Other Poultry	0.9	1.2	1.3	1.4
Total Poultry	27.7	29.9	32.3	33.8
Pigmeat	17.4	18.2	18.8	18.1
Total Meat Consumption	97.2	105.6	102.5	98.3
Mean Population	3,809	3,830	3,846	3,899

* September Year

POLICY

Biosecurity

In the wake of the recent FMD and BSE outbreaks, New Zealand is assessing its own biosecurity and ability for containment if such organisms should enter New Zealand. At a recent farmer's conference, officials suggested that New Zealand is at worst risk from diseases or undesirable pest outbreaks that catch New Zealand unprepared, claiming that New Zealand does not even have a government-industry agreement on how to deal with a potential problem. Implementation of such a system would cost between NZ$ 200 - 500 million (US$ 92 - 230 million). Massey University has been working on a risk management information system for food safety and biosecurity for some time but has been unable to get sufficient financial support to complete a project through to commercialization. It was suggested that New Zealand's public must realize that it is only luck that has kept serious disease outbreaks from occurring.

Livestock producers exempt from Kyoto carbon tax

In May 2002, the Government announced that cattle and sheep escape a direct tax for methane emissions under its policy on the Kyoto Protocol. The Government had been lobbied by various farming bodies that agriculture was too important for New Zealand to be hit by a tax that competing meat exporting countries were not imposing on their own farmers (esp. Australia and the U.S.). However, the industry (farmers) are obligated to invest in research to reduce methane emissions. The Science Minister indicated that between NZ$ 15 to 20 million (US$ 7 to 9.4 million) would be sufficient. Meat New Zealand is part of a consortium bid to Government for funding methane research, which would focus on altering rumen bacteria-mix to reduce methane production.

External funding for meat-related projects

Three consortia involving Meat New Zealand have been approved for research funding by the Foundation for Research Science and Technology (FRST). FRST has allocated grants to the consortia for research into meat-based bioactives, clover genomics and ruminant methane emissions. The NZ government wants to see reduced methane emissions in livestock because it wishes to ratify the Kyoto Protocol. The Government has mooted a research levy on all sheep and beef in New Zealand to pay for research into reducing methane emissions from livestock. The industry has likened the levy to a tax, which would reduce the amount of monies available for R&D into preventing animal disease and increasing productivity. The industry has commented that the consortium approach to solving the problem of methane emissions is a positive step in the right direction, however, the funding will become available under the proviso that suitable science and business plans are put into place for each consortium.

FRST has indicated that it will conditionally invest up to NZ$ 1.2 million (US$ 564,000) per year over five years in a Meat-Based BioActives Consortium. The funding is targeted at studies into the extraction and purification of compounds that could prevent and control iron deficiency and possibly the investigation of blood-based growth factor products. Meat New Zealand is working to obtain the

necessary matching industry funding, and negotiating contracts with FRST.

R&D may lead to protein extraction

The Wool Research Organisation has discovered how to break down wool fibre into its component proteins. The researchers have found a way to make wool water-soluble, leading to the extraction of the proteins as a powder. The wool proteins found so far could be used in natural cosmetics, as artificial bone in reconstructive surgery, and in clothing as a silk-like fibre. Keratec will market the powder.

AgResearch GM-cattle application

AgResearch, a state-owned research institute, which has applied to the Environmental Risk Authority (ERMA) to transfer transgenic embryos into conventional cattle, has received over 800 public submissions on its application. The application involves raising the offspring, which could potentially produce human proteins in milk that would aid in the treatment of diseases. Of 863 public submissions made, 856 are opposed. Both sides in the GM (genetic modification) debate see this case as a key test of the Government's new, stricter controls on genetic modification passed by Parliament earlier this year. (ERMA has requested more time to consider the application)

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