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The current world economic recession is having an adverse effect on trade in general. For beef, however, there are two main reasons why the international beef market is particularly sensitive to global economic recessions. First, lower consumer demand for beef puts downward pressure on prices, which in turn causes producers to respond by increasing marketings of cattle as herd building programs are reassessed. This adds to available beef supplies, which further aggravates downward price movements. Second, the complex institutional arrangements in the international beef market are such that individual trading countries react to declining market prospects in a manner which adds to market instability. Importing countries react by restricting trade and, in some cases, by supporting domestic market prices so that production is maintained while consumption is less than it would be in the absence of market intervention. Some exporting countries react by subsidising exports or otherwise assisting the export sector so that other exporters face increased competition.

These responses and reactions were clearly demonstrated in the mid-1970s when world economic recession was accompanied by increased production, a closure of the EEC and Japanese markets and a drastic fall in international beef prices. In the current economic recession, there are elements of these general responses apparent, but the effects are far less severe. This is partly because of the adjustments to supplies which occurred largely in response to the recession in the beef market in the mid-1970s. On the other hand, there are additional elements such as the impact of white meats on beef demand.

These complex interactions between economic activity, changing consumer tastes, producer supply responses and market intervention by governments need to be carefully weighed up in assessing future prospects for world beef trade. In looking to the future, I shall first concentrate on likely short-term developments and then venture into an assessment of the longer term. In doing so, I shall attempt to highlight some important emerging trends in the international beef market. The thesis I put forward for discussion is that world production in beef may be heading toward greater concentration in importing countries and that, despite efforts within GATT to free up trade in agricultural products, it is unlikely there will be any significant relaxation of existing restraints on world trade in beef.

Outlook for 1983

A firm and sustained economic recovery in major world economies, particularly the USA, now appears to be a prerequisite for a significant

upturn in the world beef market. There are signs that the U.S. economy is starting to recover. Interest rates, though still high by historical standards, have fallen significantly in the past twelve months and inflation rates, now around 4-5 per cent, give some scope for a more relaxed monetary policy. The rise in the index of leading indicators is also encouraging. However, my understanding is that business confidence is still weak and unemployment at around 10 per cent is the highest since the depression years. My concern is that any improvement in the U.S. economy, at least in the first half of 1983, may be too weak to increase significantly consumer demand for items like beef. Forecasts for the U.S. economy next year vary considerably but on balance it seems to me that economic growth rates on an annual basis of only 1-2 per cent can be expected in the first half of next year, with some further modest strengthening in the second half. In general, some improvement in economic activity is also expected in other major beef trading nations.

What all this means is that, because beef demand is responsive to income changes, only modest improvement can be expected in demand for beef, which will have a small but, hopefully, significant positive impact on beef prices.

On the supply side, further increases in beef production in 1983 are expected in the major importing countries but production should decline substantially in Oceania. Little change is expected in beef output in South America, where production fell 6 per cent this year. With cattle numbers in Argentina being the lowest for many years, and prices remaining low, beef exports are unlikely to increase much in the short term. There may, however, be some further increases in beef exports from Brazil where the Government has recently taken measures to stimulate exports.

In the United States the latest Cattle on Feed Report indicates an upsurge in cattle moving into feed lots largely as a result of low grain prices. This must dampen expectations of significant price rises for fed beef in the first half of 1983 even though pork supplies are likely to continue at well below year-earlier levels. Pork and poultry production should, however, show rising trends during the year in response to cheap feed grain. Overall, there may be little change in total meat supplies in 1983 but beef production may be up slightly. From an exporter's viewpoint, a positive factor is the expected reduction in non-fed steer and heifer and cow beef supplies. During much of 1982, cow slaughterings were 10 per cent above year-earlier levels as producers culled their herds in response to reduced profit levels. Prospects for imported manufacturing beef are closely related to U.S. cow beef supplies.

The import beef market in the USA has recently been substantially affected by the arrangements which were made with major supplying countries to limit beef imports. For the first three-quarters of this year, forecasts of total imports were well below the trigger level of 1300 million lb but drought conditions in Australia and an appreciating U.S. dollar led to an upsurge in beef imports late in the year. New Zealand and Canada also increased shipments to the USA. Under the agreement reached between Australia, New Zealand, Canada and the USA,

shipments for 1982 were limited to 677 million lb for Australia, 340 million lb for New Zealand and 121 million lb for Canada. This voluntary arrangement eliminated the need to bring in formal restraint arrangements or to invoke the quota. Any shortfall from Central American countries should also be allocated to these major suppliers. Imported beef prices rose sharply in response to the restrictions but, with continuing high shipments going into bond for release next year, the market has already anticipated lower prices in the early months of 1983. The release of bonded stocks, however, is likely to result in only a short-term aberration in the market.

We expect the trigger level for 1983 to be around the minimum import level of 1250 million lb and, at present, it seems that there could be a need to negotiate voluntary restraint levels for 1983. Because of the effects of the current drought, shipments from Australia are expected to be around 580 million lb in 1983, and New Zealand and the Central American countries are also expected to have lower supplies available for export. However, some allowance must be made for stocks now in bond, so that estimates of total imports available will be at least close to the 1983 trigger level.

Developments in the Canadian beef industry have closely paralleled those in the USA. At this stage, our assessment is that Canadian imports next year will be less than the minimum restraint level.

Japanese beef imports have declined over the past four years but, under agreements negotiated under GATT, imports for the current Japanese fiscal year will be 135 000 tonnes. The United States has become a significant supplier of high-quality beef to the Japanese market and substantially increased its share of imports this year, while Australia and New Zealand suffered a loss of market share. Future quotas will be determined by bureaucratic decisions which should, nevertheless, bear some relationship to economic circumstances.

The Republic of Korea (South Korea) and other South-East Asian markets have been steadily growing markets for beef, mainly from Australia. South Korea increased imports by 75 per cent this year to 62 000 tonnes but, largely because of expected increases in domestic production, imports may be down next year. Australia, to date, has been the only significant supplier of beef to South Korea. Elsewhere in South East Asia, demand for beef imports should remain firm in the short term.

Turning to Australia, cattle numbers have been declining for the past six years, from 33 million in 1976 to an estimated 22.4 million in March 1983. A succession of drought years has played a part in this decline but, more particularly, the returns to beef producers both in absolute terms and relative to alternative enterprises such as wheat and wool have been extremely unattractive to producers. In contrast, while grain and wool prices have also declined somewhat in real terms from the high levels of 1979, producers' confidence has been underpinned by the respective marketing arrangements for those commodities. The result of these differential returns to alternative enterprises has been a marked contraction of the herd, particularly in the southern parts of Australia.

The very high slaughterings and export levels in recent months can be directly attributed to producers' responses to the severe drought conditions.

Total production of beef and veal in 1983 is forecast at 1.44 million tonnes, 12 per cent below this year's production estimate but only slightly above production in 1981. Domestic consumption of beef is expected to fall in response to somewhat higher beef prices and probably a continuing weak Australian economy. Exports are expected to fall by an even greater proportion, to 490 000 tonnes shipped weight. Of this, around 265 000 tonnes (580 million lb), or around 54 per cent of total exports, are likely to be exported to the USA. This compares with exports of 325 000 tonnes expected in 1982.

Beef production in New Zealand for the year ending September 1983 is forecast to decline by 2 per cent to 460 000 tonnes. Payments to the beef sector under the Government's Supplementary Minimum Price Scheme have been substantial this year (8 per cent of the value of beef exports) and have reduced the incentives for producers to reduce cattle numbers which remained steady at the last June census.

Beef trade outside the foot and mouth disease free Pacific zone is dominated by the EEC which is now both a major importer and exporter. Beef production in the EEC-10 is expected to stabilise around the 1982 level of 6.8 million tonnes or to increase slightly, after having declined over the past two years. More importantly, beef exports in 1982 were about 100 000 tonnes less than in 1981 and exports should fall even further to around 450 000 tonnes in 1983, compared with 640 000 tonnes in 1980. Furthermore, imports are forecast to continue their upward trend so that the significance of the EEC as a net exporter should be less apparent next year. This may improve prospects for beef sales by Oceania to third markets like the Middle East.

In summary, my assessment for 1983 is that there is likely to be some improvement in international beef prices, largely as a result of reduced supplies of beef from main exporting countries but also because of an expected moderate improvement in major world economies. We expect prices for Australian beef exports to improve by around 5-10 per cent after expected exchange rate adjustments; but because of reduced supplies, average prices to producers may be up by around 10 per cent.

Emerging Trends

A number of significant changes are emerging in the international beef market which are of particular concern to exporting countries and which, I believe, will have a significant bearing on prospects for the longer term. I shall highlight just two aspects: increasing consumption and trade in poultry meat; and a trend toward more 'protectionism'.

Technological advances in the production of poultry meat over the past twenty years are well known. The result has been a very substantial increase in world poultry meat production and its availability at a much reduced price. In practically every major meat consuming country with the exception of Argentina, the share of poultry consumption in total meat consumption has increased substantially while, in general, the share of beef has declined. The lower quality end of the beef market has probably been most affected by increased competition from poultry. In the USA, for

example, it is estimated that sales of chicken meat through 'fast food' restaurants exceeded those of beef in 1980-81. This, together with the increased use of pork in processed meat products, may explain in part the weak demand for imported beef in the USA since 1980.

The growth in world trade in poultry meat has been no less remarkable, with trade expanding at an average annual rate of 11 per cent between 1970 and 1980. (World beef trade expanded by 3.4 per cent a year over the same period). World poultry meat exports expanded by a further 23 per cent in 1981. A major growth area for poultry meat has been the Middle East, where imports expanded by 550 000 tonnes in the decade to 1980, and accounted for 60 per cent of the total expansion in meat imports into that region. Poultry meat imports now account for half of total meat imports by the Middle East.

Clearly, the competition from poultry meat will not lessen and is likely to intensify. In times of economic recession, consumers are likely to turn to the cheaper meats such as poultry, while in buoyant periods, since poultry has a shorter production period, increased demand for meat may, to some extent, be more readily satisfied by a relative increase in poultry meat availability.

Turning to 'protectionism', the international market is more unstable and is subject to a greater proliferation of government intervention measures than most other agricultural commodities. All major importing countries now have mechanisms firmly in place to restrict beef imports by quotas or other means, while some countries, such as the EEC, Japan and South Korea, provide substantial price support to domestic producers in addition to restrictive trade barriers.

To a degree, the 'countercyclical' meat import legislation recently introduced by the USA and Canada, reduces the scope for ad hoc manipulation of import quotas but, nevertheless, under these schemes imports are used as instruments to help stabilise the internal beef markets. Consequently, the burden of adjustment is thrown back on exporters. At the same time, the effectiveness of the import policy in achieving greater stability in domestic beef prices has been shown to be minimal. Despite these aspects, it must be pointed out that, over the years, the USA has offered more stable minimum access, trouble free trading and generally higher prices than any other major market.

The complex import control and price support mechanisms utilised by the EEC, Japan and South Korea not only encourage domestic production and discourage consumption but also inflict considerable uncertainty and instability on exporters via the 'stop-start' nature of bureaucratically controlled import quotas. The introduction of the EEC's Sheepmeat Regime is a further example of creeping 'protectionism' and may have indirect effects on world beef trade. In the case of the EEC, the goals of increased self-sufficiency and of providing adequate income support to domestic producers have been so adequately fulfilled that, over the past three years, the EEC has been the second largest net exporter of beef in the world, whereas previously it was a significant net importer of beef. Of particular concern is the EEC's policy of subsidising exports out of

intervention stocks so that traditional exporters are virtually excluded from markets supplied by the EEC. All indications point to the EEC remaining a major net exporter of beef in the years ahead.

The substantial increase in volume of beef trade which occurred at relatively low prices in the late 1970s and the recent economic recession in part underlie current pressures for increased protectionism. Some reactions to the current situation (in beef and sheep meat trade) include the increased use of barter trading (e.g. Iran's arrangements with several countries, notably New Zealand), bilateral long-term agreements (e.g. Egypt with Uruguay and Argentina with the USSR), introduction of sole trading powers on the part of some exporters, at least for certain markets (Australia and New Zealand), and greater efforts to stimulate exports (e.g. Brazil).

The potential danger in all this is that a 'beggar thy neighbour' attitude could develop, which would be completely contradictory to recent efforts at a ministerial level within GATT to work toward greater trade liberalisation in agricultural products.

In spite of all these measures, beef trade between Oceania and North America has been relatively 'free' for most of the period since 1979. This has been largely because of the lower supplies available for export from Oceania, relatively low prices for imported beef, and exchange rate effects. It is only in recent months that drought has caused an upsurge in production and exports from Australia, which in turn has caused import restraints by the USA to become binding.

Let me now draw the threads together and make an assessment of broad directions for the longer term.

Longer-Term Prospects

Over the past fifty years, world trade in beef has gone through three distinct phases. The first, which lasted to the mid-1950s, is characterised by 'free' trade and the dominance of the United Kingdom as the major importer. Features of the second phase, up to 1973, include the strong growth of the North American and Japanese markets, buoyant consumer demand and rising prices, but increasing degrees of protectionism. During the third stage (the latter half of the 1970s), there was a further increase in the volume of world beef trade, with non-traditional importers or opportunistic buyers accounting for a sizeable proportion of total imports. For the most part, transactions occurred at depressed prices, and there were further increases in protectionism. The beef industry may well now be entering a fourth stage for much of the 1980s. This can be characterised by slower rates of growth in beef consumption, continuing high levels of protectionism and a somewhat greater degree of self-sufficiency in major importing countries, a relative shift in production patterns away from traditional exporters toward importing countries, and unstable but, overall, reduced volumes of trade across the Pacific and the Atlantic.

Obviously, a great deal of uncertainty is attached to any long-term assessment and much will depend, in particular, on future growth rates in

the world economy. However, given the significant economic problems now confronting governments, a reasonable assumption is that average rates of economic growth for the OECD area will be more in line with the relatively low rates of growth in the latter 1970s rather than the high growth rates of the 1960s. This, together with comments made earlier on the increased share of poultry meat in total meat consumption, suggests that, on average, rates of growth in beef demand could be relatively modest over the 1980s although there will continue to be significant year-to-year changes in line with variations in consumers' incomes.

On the supply side, unless there is substantial liberalisation of trade barriers (which seems unlikely) or a greater than anticipated rate of growth in major world economies, average production rates in importing countries are likely to be greater than in traditional exporting countries. In Australia, cattle numbers are forecast by the BAE to decline over the next year or two and to recover by 1987 to only about the herd size in March this year (24.5 million). Production and exports by 1987 are forecast at around 1.35 million tonnes and 610 000 tonnes, respectively, significantly lower than in recent years. Little more than modest increases, at the most, in beef production in New Zealand and Argentina can be expected, judging from recent forecasts supplied by these countries to GATT and OECD. In contrast, further significant growth in production from current levels has been projected for the USA, Japan and the EEC. In the short term, output should be encouraged by relatively low feed costs in these importing countries. For exporting countries, the predictability associated with minimum access levels in the USA and Canada will be extremely important, while the gains made under the MTN with respect to Japan will need to be fostered further.

There are, of course, a large number of alternative scenarios to these general broad trends. In the USA, for example, it could be argued that the trend toward reduced protection to the dairy industry will result in a decline in dairy cow numbers and, in the longer term, reduced beef production from the dairy herd. Implications for the short-to-medium term, however, would be increased cow beef production, which would be detrimental to Australian and New Zealand prospects for manufacturing beef sales. Alternatively, if there were to be a strong economic recovery with economic growth rates remaining at high levels, and if there were a series of crop failures in the Northern Hemisphere, international beef prices would rise sharply and this would substantially enhance production in exporting countries and growth in world trade. At this stage, however, this scenario would have a much lower probability of occurring.

Concluding Comments

In this paper, I have outlined briefly my thoughts on the outlook for world beef trade in the short and long terms, and discussed some emerging trends. In the short term, world trade in beef is likely to be characterised by reduced volumes and some improvement in trade prices. Longer term developments will clearly depend on the extent and timing of world economic recovery but, at this stage, it appears that the beef industry may well be entering a new phase characterised by lower volumes of trade and a slight shift in world production patterns away from traditional exporting countries. Guaranteed access to traditional markets will be of vital importance to the main exporting countries.