

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY  
USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT  
POLICY

Required Report - public distribution

**Date:** 8/28/2013

**GAIN Report Number:** NZ1313

## **New Zealand**

### **Livestock and Products Annual**

#### **Annual**

**Approved By:**

Hugh Maginnis, Agricultural Counselor, Australia/New Zealand

**Prepared By:**

David Lee-Jones, Ag Specialist

**Report Highlights:**

The Beef and Cattle Sector is recovering well from the nationwide drought in the first six months of 2013. Total slaughter numbers for 2014 likely to be 4.1 million head only 1.5% less than 2013. Exports for 2014 are forecast at 514,000 metric tons carcass weight equivalent. Exports to the US in 2014 are not likely to be greater than 245,000 metric tons carcass weight equivalent. Exports to China have dramatically increased and are likely to be greater than 50,000 metric tons carcass weight equivalent in 2014.

## **Executive Summary**

There are signs the cattle sector will be able to make a good recovery from the drought that affected most of New Zealand for the first half of 2013 which is expected to reduce slaughter numbers by 1.5 percent to 4.1 million head in 2014. Total cattle stocks are forecast to reach 10.24m head driven by the burgeoning dairy herd.

Total beef production in 2014 is forecast at 618,000 metric tons (MT) carcass weight equivalent (CWE), only 1 percent less than the drought boosted 2013 volume. It is expected that average carcass weights will be up marginally by 0.3 percent. Given a normal pasture growing year these weights could quite easily be exceeded.

The beef production and processing industry in New Zealand is becoming increasingly reliant on the dairy sector which now probably contributes directly or indirectly 70-80 percent of the total kill.

As a result of the drought slaughter numbers were significantly higher than anticipated in the first half of 2013 and it is now estimated the total annual kill for 2013 will be 4.17m head. This is 2.6 percent greater than previously forecast and has been driven mostly by increases to the adult cattle (excluding cow) kill. The increased 2013 slaughter has translated to higher beef production now estimated at 625,000 MT which is similarly ahead of previous forecasts by 2.6 percent.

Domestic consumption is stable with variations in production taken up by fluctuations in exports so it is likely that for 2014 exports will be slightly less (1.5 percent) than 2013 at 514,000 MT CWE. The export tonnage for 2013 is now estimated at 522,000 MT CWE an increase of 3.4 percent from the previous forecast totally driven by the drought induced increase in slaughter numbers.

At the halfway mark for 2013 exports to the US were 9,800 MT CWE, or 7 percent, ahead of the same point in 2012. It is expected that most of this gain will be maintained and for the year 245,000 MT CWE will be shipped to the US. Even though prices in the US are expected to rise going into 2014 it is forecast that total shipments will be stable at 245,000 MT CWE.

Among all other export destinations China is the big mover. For the first half of the 2013 year exports have reached 36,400 MT CWE which is two and half times the whole total for 2012 and it is now forecast exports for the full year will be in the order of 49,000 MT CWE.

This meteoric increase hasn't come without some growing pains in the form of market access issues. In March and April 2013 product was delayed at Chinese ports because of a documentation issue which took over a month to resolve. At the end of June over a third of New Zealand beef packing facilities were still not approved by the Chinese authorities for export to China.

Red meat sector restructuring is still on the mind of many farmers and packers after the extreme volatility of farm-gate pricing for sheep meat especially and financial losses incurred by the packers over the last two years. Nothing has been achieved yet to change current business model.

## **Cattle**

### **Production**

## 2014

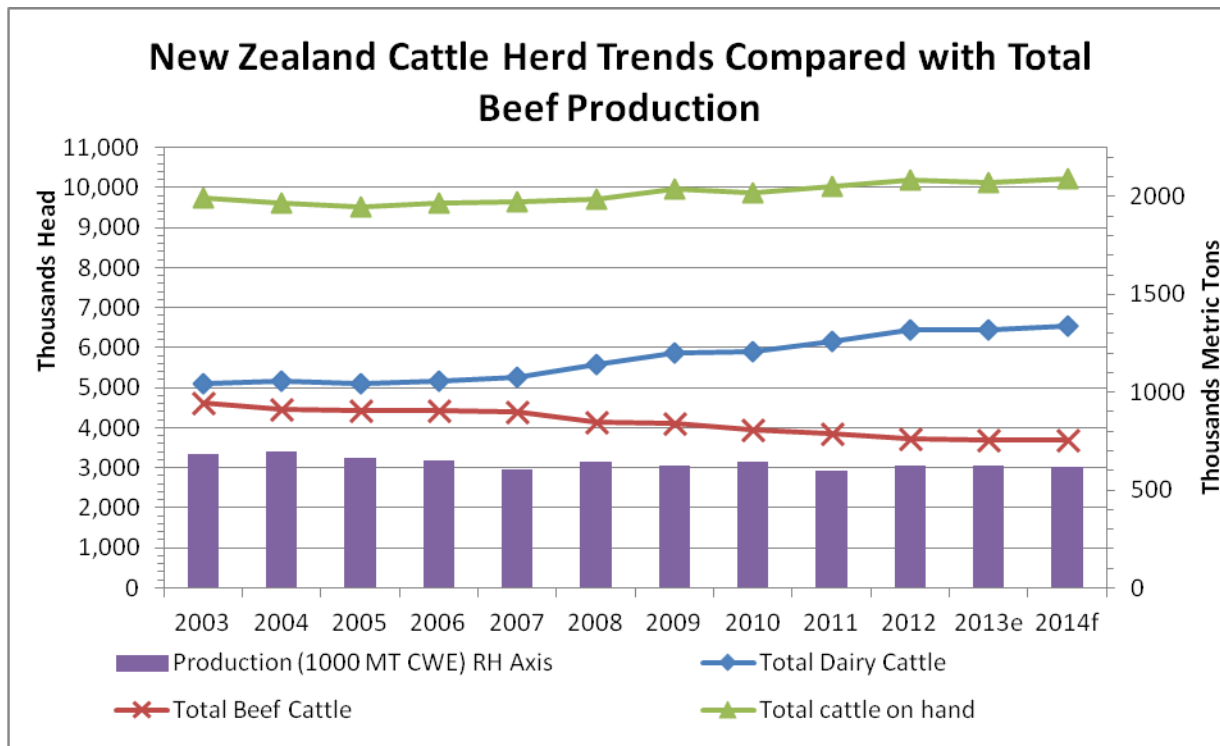
Total cattle slaughter in New Zealand for marketing year (MY) 2014 (Jan-Dec) is forecast at 4.1 million head, 1.5 percent less than the latest estimate for the 2013 year. The main mover is the cow kill which expected to fall by 5 percent.

Lower slaughter numbers are expected to be partially offset by higher carcass weights with total beef production in 2014 forecast at 618,000 metric tons (MT), only 1 percent less than the 2013 drought boosted volume. A return to normal pasture growth over the country could increase carcass weights above this level.

Based on the reduced slaughter forecasts overall cattle stocks are forecast to increase during 2014 by 1 percent to reach 10.24 million head which would be a new high for the sector. This trend is being driven by continued strong growth in the dairy industry as indicated in the chart below. The beef production and processing industry in New Zealand is becoming increasingly reliant on the dairy sector ;directly from the slaughter of cull cows and bobby calves; and indirectly from young stock bred from dairy cows which enter the beef herd. In total the dairy sector probably contributes 70-80 percent of the total kill.

Since 2003 the beef herd has declined by 21 percent. Although beef production has also fallen over that period the fall has not been as dramatic due to higher slaughter numbers from the dairy sector and improved productivity which has reduced the average age of turnoff.

The Ministry for Primary Industries (MPI) is predicting beef cattle numbers to continue falling through to 2017 but beef production to be maintained for the above reasons. Given the historical trends and the current outlooks for relative profitability between dairying and beef production it is hard to argue against this scenario.







Total Cattle Beg. Stks	10,021	10,021	10,021	10,199	10,199	10,199		10,127	-0.7%	0.0%
Dairy Cows Beg. Stocks	4,816	4,816	4,816	5,018	5,018	5,018		5,043	0.5%	0.0%
Beef Cows Beg. Stocks	1,053	1,053	1,053	1,055	1,055	1,055		1,054	-0.1%	0.0%
Production (Calf Crop)	4,945	4,945	4,945	4,840	4,840	4,893		4,985	1.9%	1.1%
Total Imports	0	0	0	0	0					
Total Supply	14,966	14,966	14,966	15,039	15,039	15,092		15,112	0.1%	0.4%
Total Exports	42	42	42	47	47	43		42	-2.3%	-8.5%
Cow Slaughter	763	763	763	875	875	885		840	-5.1%	1.1%
Calf Slaughter	1,695	1,695	1,695	1,767	1,767	1,800		1,800	0.0%	1.9%
Other Slaughter	1,499	1,499	1,499	1,425	1,425	1,479		1,470	-0.6%	3.8%
Total Slaughter	3,957	3,957	3,957	4,067	4,067	4,164		4,110	-1.3%	2.4%
Loss	768	768	768	725	725	758		725	-4.4%	4.6%
Ending Inventories	10,199	10,199	10,199	10,200	10,200	10,127		10,235	1.1%	-0.7%
Total Distribution	14,966	14,966	14,966	15,039	15,039	15,092		15,112	0.1%	0.4%
CY Imp. from U.S.	0	0		0	0					
CY. Exp. to U.S.	0	0		0	0					
Balance	0	0	0	0	0	0		0		
Inventory Balance	178	178	178	1	1	(72)		108	-250.0%	7300.0%
Inventory Change	2	2	(1)	2	2	2		(1)	-150.0%	0.0%
Cow Change	1	0	2	3	0	0		0		
Production Change	3	3	5	(2)	(2)	(1)		2	-300.0%	-50.0%
Production to Cows	84	84	84	80	80	81		82	1.2%	1.3%
Slaughter to Inventory	39	39	39	40	40	41		41	0.0%	2.5%
Slaughter to Total Supply	26	26	26	27	27	28		27	-3.6%	3.7%
TS=TD	0	0	0			0		0		

Meat, Beef & Veal New Zealand  (1000hd,100 OMT CWE, kg, %)	2012			2013			2014		% Change 2014 New Post Data from 2013 New Post Data	% Change 2013 New Post Data from 2013 last Post Est.
	Market Year Begin: Jan 2012			Market Year Begin: Jan 2013			Market Year Begin: Jan 2014			
	Off. Data	old Post Est.	New Post Data	Off. Data	old Post Est.	New Post Data	Off · Dat a	New Post Data		
Slaughter (Reference)	3,957	3,957	3,957	4,067	4,067	4,164		4,110	- 1.30%	2.39%
Beginning Stocks	0	0	0	0	0	0		0		
Production	625	625	624	609	609	625		618	- 1.12%	2.63%
Total Imports	10	10	10	11	11	14		13	- 7.14%	27.27 %
Total Supply	635	635	634	620	620	639		631	- 1.25%	3.06%
Total Exports	517	517	517	505	505	522		514	- 1.53%	3.37%
Human Dom. Consumptio n	118	118	117	115	115	117		117	0.00%	1.74%
Other Use, Losses	0	0	0	0	0	0		0		
Total Dom. Consumptio n	118	118	117	115	115	117		117	0.00%	1.74%
Ending Stocks	0	0	0	0	0	0		0		
Total Distribution	635	635	634	620	620	639		631	- 1.25%	3.06%
CY Imp. from U.S.	0	0	0	0		0		0		
CY. Exp. to U.S.	239	239	239	245	245	245		245	0.00%	0.00%
Balance	0	0	0	0	0	0		0		
Inventory Balance	0	0	0	0	0	0		0		
Weights	158	158	158	150	150	150		150	0.00%	0.00%
Production Change %	4	4	4	(3)	(3)	0		(1)		- 100.0 0%
Import Change %	(17)	(17)	(17)	10	10	40		(7)	- 117.5 0%	300.0 0%
Export Change %	3	3	3	(2)	(2)	1		(2)	- 300.0 0%	- 150.0 0%
Consumptio n Change %	7	7	6	(3)	(3)	0		0		- 100.0 0%
Imports Percent Consumptio n	8	8	9	10	10	12		11	- 8.33%	20.00 %
Exports	83	83	83	83	83	84		83	-	1.20%

Percent Production									1.19%	
Population	4,327,944	4,327,944	4,327,944	4,365,113	4365113	4365113		4,365,113	0.00%	0.00%
Per Capita Consumption	27	27	27	26	26	27		27	0.00%	1.90%
TS=TD		0	0		0	0		0		

Note: All numbers on the Beef production table are shown on a carcass weight basis. To reconcile beef exports in the table with shipped product tons in published statistics divide the number in the table for exports by 1.4.

Not Official USDA Data

Data included in this report is not official USDA data. Official USDA data is available at <http://www.fas.usda.gov/psdonline/psdhome.aspx>

## Trade

### Exports

#### 2014

Beef exports are forecast to be 514,000 MT in 2014 on a CW equivalent basis, which would put it at 1.5 percent less than the 2013 year. Because domestic consumption is relatively stable exports vary in sync with production variations in the short to medium term.

#### 2013

The export tonnage for 2013 is estimated to 522,000 MT an increase 3.4 percent from the previous forecast. This is totally driven by the drought induced increase in slaughter numbers.

New Zealand Beef Export Statistics							
Commodity PSD BEEF HS codes: 0201, 0202, 021020, & 160250 on Carcass Weight Basis							
Year To Date: January - June							
Partner Country	Quantity (metric tons)			Percent Share of Total			percent Change 2013/2012
	2011	2012	2013	2011	2012	2013	
<b>World Total</b>	<b>312,354</b>	<b>311,083</b>	<b>336,682</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>8.23</b>
United States	144,549	154,652	164,980	46.28	49.71	49.00	6.68
China	1,603	3,956	35,916	0.51	1.27	10.67	807.77
Japan	26,352	27,489	26,995	8.44	8.84	8.02	- 1.80
Korea South	32,417	23,115	21,465	10.38	7.43	6.38	- 7.14
Taiwan	18,143	17,664	15,576	5.81	5.68	4.63	- 11.81
Canada	19,758	14,808	11,721	6.33	4.76	3.48	- 20.85
Philippines	8,144	9,527	8,155	2.61	3.06	2.42	- 14.41
Malaysia	2,307	5,639	6,042	0.74	1.81	1.79	7.14
Indonesia	11,332	8,288	5,961	3.63	2.66	1.77	- 28.07



Hong Kong	3,853	5,110	3,536	1.23	1.64	1.05	- 30.77
Singapore	5,054	4,964	3,514	1.62	1.60	1.04	- 29.21
Australia	3,871	4,544	3,240	1.24	1.46	0.96	- 28.70
United Kingdom	4,155	2,559	2,957	1.33	0.82	0.88	15.53
French Polynesia	3,287	2,859	2,870	1.05	0.92	0.85	0.40
Italy	1,868	2,164	1,910	0.60	0.70	0.57	- 11.78
Saudi Arabia	306.6	299.6	1,893	0.10	0.10	0.56	530.83
Netherlands	1,826	1,809	1,715	0.58	0.58	0.51	- 5.14
United Arab Emirates	1,589	2,052	1,679	0.51	0.66	0.50	- 18.18
Thailand	886.2	1268.4	1,551	0.28	0.41	0.46	22.31
Russia	1,977	3,371	1311.8	0.63	1.08	0.39	- 61.09

Source: GTA

<b>New Zealand Beef Export Statistics</b>							
<b>for Beef HS Codes: 0201, 0202, 021020, 160250 on a Carcass Weight Basis; During Calendar Years:</b>							
<b>Partner Country</b>	<b>2010</b>		<b>2011</b>		<b>2012</b>		
	<b>Total FOB Value (USD)</b>	<b>Quantity (metric tons)</b>	<b>Total FOB Value (USD)</b>	<b>Quantity (metric tons)</b>	<b>Total FOB Value (USD)</b>	<b>Quantity (metric tons)</b>	<b>Qty as a percent of Total</b>
United States	565,255,504	222,265	676,540,559	212,622	784,920,496	238,469	46.1%
Japan	159,376,227	47,782	155,523,314	43,147	167,053,933	45,090	8.7%
Taiwan	82,892,321	27,243	104,434,874	27,223	107,940,989	27,535	5.3%
Korea South	107,000,160	48,009	139,838,064	50,362	100,459,168	40,299	7.8%
Canada	80,198,559	32,192	95,624,391	31,900	82,844,922	26,726	5.2%
China	6,633,028	3,402	9,683,190	3,949	41,756,268	14,687	2.8%
Singapore	30,985,432	8,753	37,282,782	8,772	39,060,193	10,402	2.0%
Australia	29,099,402	6,853	39,292,868	8,708	38,666,533	8,735	1.7%
Philippines	28,952,739	13,846	35,074,545	14,039	37,440,834	16,544	3.2%
Indonesia	114,804,138	51,696	81,616,663	29,232	34,938,980	11,493	2.2%
Hong Kong	28,695,944	7,829	29,950,663	7,099	34,122,923	7,846	1.5%
All other Destinations	237,213,800	59,784	324,581,238	66,056	320,220,726	69,054	13.4%
<b>World</b>	<b>1,471,107,253</b>	<b>529,655</b>	<b>1,729,443,153</b>	<b>503,112</b>	<b>1,789,425,968</b>	<b>516,881</b>	<b>100.0%</b>

Source: GTA

## Markets Discussion

### United States

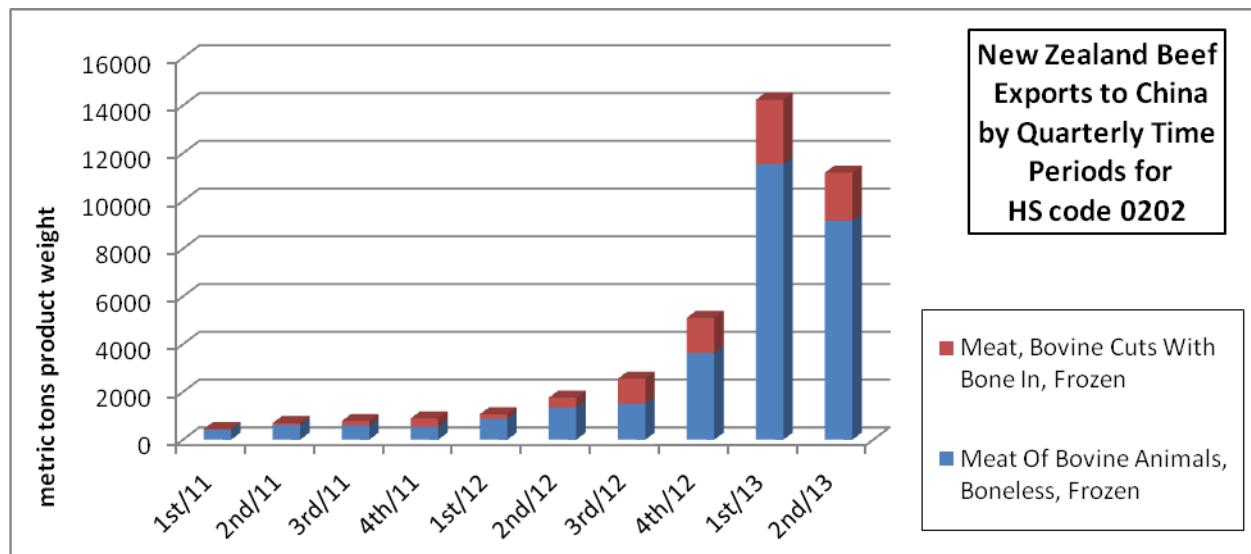
Over the first six months of 2013 exports to the U.S. were well ahead of the previous two years, shown in the year-to-date (YTD) table above. Mostly this was a result of the increased cow kill for which the U.S. is usually the destination of choice. It is expected the increased volume will continue for the remainder of 2013 with a total volume of 245,000 MT CW Equivalent (CWE), 2.5 percent ahead of the previous year at. .

In 2014 the picture starts to get murkier, because the China factor will become a driver as total export tonnages dip slightly. All world trade influences aside, it could have been likely that tonnages shipped to the US would increase in 2014. Because exporters here think the US cow kill will moderate, if not drop considerably, which will drive: demand for imported manufacturing beef; and pressure on pricing to rise. However the high prices on U.S domestic 50 percent chemical lean (CL) beef (ground with the high lean beef for mince, and patties) prevalent in the U.S. at the moment are likely to put a cap on the price increases for imported beef especially 95 percent CL beef, if they continue.

Market dynamics in the U.S. won't play out in isolation and in 2014 Post expects exports to the U.S. will be no more than 245,000 MT CWE as the increase in beef demand from China is likely to divert some manufacturing beef away from the U.S.

### China

Beef exports to China have increased dramatically. For the first half of the 2013 year exports have reached 36,400 MT CWE which is two and half times the whole total for 2012. The reason the June 2013 quarter fell away from the March 2013 quarter was because problems with export certification delayed product at the port during April and May which then delayed later shipments.



Source: GTA

It is unlikely for this pace of shipments to continue for the whole year so it is likely for 2013 total exports will be in the order of 49,000 MT CWE. Even at this volume most of this increase will have come from product diversified away from other Asian destinations.

Looking forward to 2014 it is difficult to see, with a decreased total volume, how exports to China can be further substantially increased unless the price differentials are so good it is worthwhile shorting the other destinations. In 2014 that could well be the U.S. market.

The New Zealand-China Free Trade Agreement (FTA) tariff reduction schedules for beef are really starting to kick in now. Prior to the FTA coming into force in 2008 tariffs were 12 percent to 25 percent. Now in 2013 the tariffs range from duty free to 8.3 percent, and in 2014 they will range from duty free to 5.6 percent. By 2016 beef will enter duty free. This gives New Zealand exporters a potential comparative advantage on pricing. However at the moment by all accounts it is the huge appetite for beef which is driving demand not competitive pricing.

Shipments to China have not been all plain sailing though, even with the FTA. An ongoing problem for New Zealand beef processors has been the difficulty in getting all plants listed for supply to China. At the end of June 2013, 35 percent of the beef packing plants were still not listed despite Prime Minister John Key's efforts during a visit to China in April 2013 to have the process of listing fast-tracked.

The problems getting listings approved involves several facets: firstly there is a veterinary protocol which requires Chinese officials to visit and approve each facility in NZ; and secondly Chinese officials have difficulty approving integrated facilities where the slaughter board, primary processing, boning room(s) and meat storage are all in one building or closely integrated in one site.

In addition the product stoppage at several ports in April and May stemmed from MPI changing its letterhead on export certification documents and not having complete Chinese competent authority approval for all the certificates for all the commodity types. It seems while the new certification documents for dairy products had been approved ones for meat had not been submitted. While the holdup was initially caused by a mistake by NZ officials it took over a month before the matter was cleared up and the product moved through the ports.

On top of this Chinese authorities have issued new export certification requirements which are now meant to be in place. However it appears there were some misunderstandings between the officials on both sides which has delayed get the new documentation functioning smoothly.

In the wake of these issues and others which have occurred for other commodities: labeling problems for sheep meat; product testing disparities with dairy products; MPI have launched at least two reviews and inquiries into trade and market access with China. MPI announced at the beginning of August that it will develop a China strategy that will invest in more staff and more training to strengthen relationships between MPI and key Chinese regulators. It will also develop a new issues management system in partnership with the meat industry. This will be combined with an improvement to the processes for the identification and management of risks to trade issues, and the escalation of emerging risks internally and to Ministers.

## **Other Industry News**

### **Blood Protein Processing**

Silver Fern Farms (SFF), New Zealand's largest red meat packer and exporter, has formed a blood protein processing joint partnership with a United States-based biotechnology company Proliant Inc. The partnership is to make bovine blood plasma products which will be base ingredients for the

production of diagnostic/medical kit manufacturing, biopharmaceuticals, veterinary medicines, vaccines and antibodies, nutraceuticals and life-science research. Initial installations of the automated closed circuit collection systems were planned for two packing facilities in the North Island. New Zealand produces about 1500 tons of blood plasma per annum of which virtually all is exported in a raw form. SFF and other meat processors are looking to develop ways to further process blood into value added products.

## **Red Meat Sector Restructuring**

After another year when price volatility was a key dynamic, especially for sheep meat, many in the industry are questioning the sustainability of the business model the sector currently labors under. Farm-gate prices reduced by 30 percent to 50 percent between the 2011/12 season and the 2012/2013 season. In the 2011/12 financial year three of the big four meat processors recorded substantial losses. Some of the second tier processors also posted losses. The processors will manage to post profits in the 2012/2013 financial year though they are probably not as substantial as anticipated or hoped for. Three years ago the financial services firm Deloitte helped the sector to produce the Red Meat Sector strategy which emphasized in-market cooperation, changes to stock procurement to reduce costs, and behind the farm-gate productivity gains. Beef+Lamb NZ, who are responsible for beef and lamb marketing and industry research and development have implemented strategies to improve on-farm productivity but little has been achieved in the other two areas.

Now a farmer pressure group the "Meat Industry Excellence" (MIE) group has emerged to challenge the status quo and is trying to come up with a new way forward that increases profitability for both farmers and processors. Their six objectives are:

1. To establish a farmer controlled entity to acquire sufficient critical mass to optimize market returns for its stakeholders.
2. Recruit the best personnel and implement best practice and strategies.
3. Commitment of stock to specification will underpin the new structure.
4. Any required legislation to support the new structure will be sought.
5. Establish All stakeholders in the red meat sector to share the cost of restructuring.
6. All suppliers will be treated fairly and with full transparency.

The two largest meat companies in New Zealand are farmer owned cooperatives. Together they process over 50percent of the red meat produced in NZ. What's more 30percent of the farmer owners have shares in both co-ops. So it would seem that the most pragmatic course of action for MIE would be to achieve the political clout necessary to effect a merger of the two co-ops. The MIE group did receive broad support from farmers at a series of meetings held throughout New Zealand earlier in 2013. The MIE has not yet released a formal strategy.

In addition, after last year's disastrous financial showing and in the face of steadily decreasing kill numbers, the big four meat companies have been meeting to discuss industry restructuring. Nothing has been made public but it is known the concept of "Tradable Slaughter Rights" has been discussed. This would require legislation to enforce a system where existing processors are allocated a share of the total kill based on some historical average share of the total kill. These slaughter rights would become tradable. It is not known if new entrants would be catered for apart from having to buy rights off an existing player. One of the attractions of the scheme is that it would allow the big processors to rationalize their over capacity without losing market share of the kill. Not all players in the sector are enamored with the "Tradable Slaughter Rights" concept.

## **OSPRI New Zealand**

Operational Solutions for Primary Industries (OSPRI) New Zealand is a not-for-profit limited company, established on 1 July 2013 to replace the former Animal Health Board now TBfree New Zealand Ltd and NAIT Ltd (the National Animal Identification and Traceability scheme). The shareholders are the industry bodies: DairyNZ, Beef+Lamb NZ, and Deer Industry NZ.

OSPRI will continue to deliver the National Pest Management Plan for bovine tuberculosis under the TBfree New Zealand brand and administer the NAIT scheme where all cattle and deer must be tagged with a radio frequency identification tag and their movements traced. It is hoped that there will be operational efficiencies from the merger which will go on to create opportunities for additional benefits to accrue to the livestock sector in relation to: data mining and analysis; epidemiology and risk management.

## **Meat Inspection**

In 2012 the Ministry for Primary Industries sanctioned a change to regulations governing meat inspection at the processing plants so that some of the inspection duties could be carried out by meat company staff rather than third party inspectors. Hitherto meat inspection was a user pays service provided by Government owned companies. The changes allowed some productivity gains and cost savings for the processors involved. Some commentators are now worried this change could lead to lower standards and the sector being exposed to a food safety scare akin to the Fonterra clostridia contamination issue. However, chief executive of the Meat Industry Association, Tim Ritchie, said in the media that in-house inspections are looking at the quality side of the meat, and the government inspectors will continue to monitor the industry's health and safety procedures.