

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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## THE SPECIFIC CHARACTERISTICS, STRUCTURE AND PROBLEMS OF WORLD TRADE IN MEAT

(Contribution of the European Economic Community)

The somewhat dramatic changes that have come about in the bovine meat market in the past two years have highlighted the particular characteristics of that market and also the modifications that have occurred in the past fifteen to twenty years at the level of supply and demand.

The purpose of our statement is to bring out all these elements - some of which may have been concealed by earlier trends - so that account may be taken of them in the course of the negotiations, in the search for multilateral solutions to settle the problems affecting trade in meat.

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If we try objectively to survey the situation as at present and as foreseeable in the short term, we can state that those elements of the world market situation that are probably unlikely to recur in the near future are the dynamic increase of demand and the impressive growth of the bovine meat deficit in importing countries as a whole, that were recorded over the past decade. Those elements were attributable to a rapid rise in real income, together with sustained population growth. In the past few years, however, major changes have come about in respect of these elements: on the one hand, income prospects seem less certain today than a few years ago and it has been established furthermore that in a period of sluggish economic activity and reduced purchasing power, demand for bovinemeat drops back; on the other hand, population growth in the major industrialized consumer countries, which used to be a dynamic factor of demand, is no longer as pronounced as it was.

What was the impact of this situation on the development of bovine meat production? The increase in demand and the resulting substantial deficit had led all producing countries to believe that there were great possibilities for stepping up national production of bovine meat. The measures taken by the various governments at the end of the last decade, like those taken by producers themselves, yielded concrete results at the market level only after a fairly long time lag, in fact only as from mid-1973. And the effects of these incentive measures on production might continue to be perceptible for some time to come, even though the considerable pressure on supply in 1974 and 1975 may have raised fairly serious problems for producers that are likely to influence to some extent their decisions regarding future production.

What we see as the most important conclusion to be drawn from these recent developments is, therefore, that the present trend in the bovine meat market is fundamentally different from what was postulated and predicted many times up to a recent date. In our opinion this trend is all the more pronounced because it now appears that the meat sector is evolving similarly to other agricultural markets where it has been found, in the past ten years or so, that agricultural production and productivity in the industrialized countries were tending to progress at a steady rate whereas, on the other hand, demand arrived earlier than production at the point where it increased less, and even began to decline. In our view, therefore, the overall picture of a rapidly growing market for bovine meat - as it appeared over the past twenty years - needs to be revised in the light of the foregoing considerations.

If we go beyond this recent analysis of the market and of predictable trends in it and examine the evolution of world production of bovine meat over the past twenty years or so, we can see that depending on the countries concerned there has been a more or less regular succession of phases of growth and of decline in this production.

If, however, at the level of trade, some of the earlier critical phases - of 1956/57, of 1961/62, and of 1967/68 - have given rise to difficulties less serious than those we are now experiencing, the reason is perhaps that there is now a parallel evolution over time in the production of all producing countries.

Let me explain; during the last decade there were three major import poles; the United States, the United Kingdom and the continental European countries (in particular Italy and the Federal Republic of Germany). The EEC single market was established in July 1968.

Differing behaviour of these import markets made it possible at that time for exporting countries to engage in arbitrage operations, all the more so because at that time there were different price situations as between these importing countries and their production was at different stages of evolution from one to another. As a result, a situation of relative shortage could develop in one import market and simultaneously a temporary surplus could emerge in another. At any given moment, therefore, there was at least one or more major markets in a situation of sufficient shortage to offset inadequacy of outlets for exporters in one or other importing country.

At the present time, however, this relative equilibrium has been completely upset. First, there are now only two major import poles in the world - the United States and the enlarged Community - with a series of countries that are new importers but whose needs are relatively small. Possibilities for arbitrage are, therefore, fewer. Second, the overall economy of these importing regions also tends to develop in phases, causing a simultaneous evolution in beef production and beef demand (due to the fact that in a period of vigorous economic activity, consumption tends to rise, encouraging higher prices which have an incentive effect on production).

There are even certain indications now that the beef economy of all countries - whether importers or exporters - develops along the same pattern despite differences in their production methods. Indeed, if we look at price trends we can see:

- relative stability (though with cyclical variations) from 1964 to 1970
- rapid increase from 1971 to 1973 and
- abrupt collapse in 1974.

At world level, therefore, there are parallel fluctuations in production. Hence the need for more intensified concerted action as between producing, importing and exporting countries.

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Leaving aside this evolution of general prospects, it would seem that changes have developed both in supply and demand which affect the existing structure of trade and could in future years either spread even further or diminish.

Thus it will be found, for example, that over the past ten years or so:

- the average age of cattle herds in the main producing countries, particularly in the Community, has been considerably reduced, due to accelerated rotation of stocks;

- research into questions of animal nutrition, fertilizers and veterinary medicine have helped to raise the standard of quality of bovine meat as put on the market;
- the packing and transport of meat have been revolutionized;
- requirements of the market as a whole and of certain markets in particular have led to specialized production and even to a specific orientation of trade between producer countries and consumer countries;
- new consumer markets have appeared in different parts of the world and these have stimulated production.

These changes have had marked effects on the structure of trade. For instance:

(i) The rejuvenation of herds has been reflected, especially in the European Economic Community, in a marked reduction in the number of old culled cows put on the market; the very lean meat of these animals went to the processing industries. As a consequence, this has led in some cases to increased import demand for lean meat and, to meet this demand, a number of overseas countries, especially the Latin American countries, have started to produce "blue bulls" - very lean animals whose meat answers the requirements of certain European processing industries, particularly those manufacturing mixed products based on pigmeat and bovine meat.

(ii) The new meat packing and transport techniques have both increased export possibilities and answered the different requirements of the trade, as in the case, for instance, of "chilled" meat for the United States. Furthermore, with the trend of demand turning towards cuts, and particularly towards boneless cuts, the possibilities offered by modern techniques, such as continuous cold from producer to user, new packing materials etc., have helped to overcome many difficulties inherent in the marketing of a highly perishable product.

(iii) New consumer markets have appeared; Japan is the most typical example but there are others, like Malaysia, and more recently the countries of the Near and Middle East which have noticeably increased their consumption of red meat.

(iv) In addition, a number of exporting countries have specialized in the production of a special type of animal or meat for a particular market. It is important, however, to distinguish between four different types of production and, as a consequence, specific trade flows, namely:

- production to meet a specific demand from a particular import market; examples of this are certain Australian meat prepared for the Japanese market, or Yugoslav and French "baby beef" (bullocks and heifers) for the Italian market;

- production of superior quality meat answering certain requirements of the EEC market, which is used in exchange for imports of meat for both consumption and processing. A case in point is the reciprocal quality trade between the Community and certain East European countries such as Hungary and Romania;
- production of a product which, for health reasons, is the only one that can be exported to one or more specific countries; an example is the cooked or salted meat from Latin-American countries exported to the United States;
- export of a proportion of domestic production because of inadequate grass and forage production. An example is the case of Poland which because of the domestic scarcity of animal feedstuffs has turned to exporting lean animals for fattening and has found in the Community, especially in Italy a worthwhile market for this product and has now become the largest exporter of live animals to the Community.

To this list, which members of the Sub-Group might very well supplement could be added others which also determine a particular type of marketing or trade. For instance Australia is unable, for health reasons (breast parasites) to market whole bone-in fore-quarters; certain countries will only import the meat of animals slaughtered in accordance with certain rites, and there is a certain traditional trade between a member of the Community (Ireland) and the United States.

These different examples show clearly:

- that the bovine meat markets are extremely fluid markets and for this reason it is essential not to prescribe any inflexible rules or conditions for the marketing of products of this sector;
- that bovine meats are heterogeneous products and by the nature of their production cannot be adapted as easily as other products in the agricultural sector, or even other animal products to the extremely fluid requirements of the market;
- that there exist in reality a number of specific markets the size of which, expressed in terms of trade volume, may differ and which are conditioned by factors that may be related either to the production or to the end-use of the product. The conclusion to be drawn from this is that it would be useless to work out any single world-wide approach to settle the problems of the meat trade, and that the solutions sought must, in the view of the Community, be adapted to the production and consumption structure of the importing and exporting countries.

In addition to these technical problems, related to production methods or consumption habits, there are other factors, linked to the nature of the policies, which influence the structure of trade in beef and veal.

At the first meeting of the Sub-Group "Meat", the representative of the Community had already had occasion in his introductory statement, to refer to certain frontier measures imposed by some importing or exporting countries, the end result of which was that the burden of adjustment of world supply and demand was being shouldered by one or several countries alone.

As regards, in the first place, import policies, the Community does not deny that the measures which it adopted in July 1974 created difficulties in a number of European or overseas exporting countries. But it is an obvious fact that, when the situation is normal, the import market of the EEC is potentially open to all exporting countries whereas other importing countries impose at all times discriminatory quantitative restrictions and, occasionally, have "voluntary" export restraints adopted, or close their markets to imports from certain countries for sanitary or zootechnical reasons.

Some of the measures adopted by exporters are also likely to create trade distortions. Among such measures, the following can be mentioned:

(i) Measures taken on the basis of a specific economic situation obtaining in the exporting country: these consist primarily in the fixing of a minimum export price or in the imposition of an export charge, which may be differentiated according to the destination of the product;

(ii) Special conditions imposed as regards methods of payment, in particular requirements concerning the foreign currencies to be used and the credits (often of an irrevocable nature) to be opened before export certificates can be issued.

(iii) The system of export diversification such as, for instance, regulations providing that exports to a specific market are subject to the previous requirement that exports have been made to other import markets;

The excellent document established by the secretariat and the frank and open confrontation debate to which it gives rise will enable us to go further into the details of all these import and export measures.

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Lastly, there are other factors which can also influence the beef and veal market and the structure of its trade.

In the first place, there is the fact that meats are mutually substitutable. It can be observed in this respect that:

- in the Community, for instance, substitution of pork for beef and veal, whether at the direct consumption level or at the processing and even the manufacturing levels, can be effected fairly easily (in particular in the northern areas), when there is a real financial interest;
- in certain Member States of the Community which are consumers of mutton and lamb, consumption habits are such that mutton and lamb compete with meat of the bovine species. A shift in the price structure between mutton and lamb and bovine meats can lead to shifts in consumption;
- since the introduction of industrial production of poultry meats, such meats can under certain conditions, in particular when prices are attractive, be substituted for red meats.

Purchases made from time to time by non-traditional importers are also a factor likely to influence the international meat market behaviour. Purchases by the USSR are a typical example of this.

The creation of feed lots or the industrialization of production by investment corporations are also likely, if carried out on a very large scale, to alter within a short time the existing structure of world trade. It is obvious that in so far as such projects are intended to raise the standard of living of the peoples of the countries concerned or to make good their supply deficiencies, no problem arises at world level. But if such investment were to lead to the major part of the meat produced being used for exports to the world market, there would, in our view, be a considerable danger of bringing about an imbalance between supply and demand, and serious disturbances would certainly result for countries which are traditional meat producers.

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I have endeavoured in this statement to give an outline of the main changes which have occurred in the beef and veal market over the past ten years and to emphasize the present but continuing difficulties which beset international trade in bovine meat. It may be that some of these will be questioned; but the debate which we hope will ensue will indicate the extent to which we have to take them into account.

The immediate lessons which can be drawn from this analysis of the market, which does not claim to be exhaustive, are many. The Community, for its part, draws the following conclusions which, it feels, are the most important ones:

- the past situation of the market cannot possibly be confused with the situation likely to develop in the coming years;
- producers, importers and exporters are jointly responsible for the multilateral search for greater stability and increased predictability in the international meat trade;
- the parallel evolution which is taking place in bovine meat production increases the need for co-ordination between all producing countries;
- there exists a possibility in some producing countries - taking into account their production methods and consumption habits - to meet short-term changes more promptly than in other countries (whether at the supply or the demand levels);
- the bovine meat sector covers a great many heterogeneous products and a highly diversified demand, so that it should be regarded not as a consistent whole but as a set of specific markets conditioned by various economic factors;
- world supply and demand may derive from specific production and consumption traditions, but they are also related to factors external to the meat market itself;
- lastly, considering that this market is undergoing a thorough change at the levels of both production on the one hand and marketing and consumption on the other, the rules and disciplines which could be negotiated with a view to the regularization of the meat market should be characterized by the greatest possible flexibility.