

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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## Arrangement Regarding Bovine Meat

### INTERNATIONAL MEAT COUNCIL EIGHTH MEETING

#### Draft Report<sup>1</sup>

Chairman: Ambassador Federico Grünwaldt Ramasso

1. The International Meat Council held its eighth meeting on 23 and 24 June 1983. Since its seventh meeting, Paraguay has notified that it is applying the Arrangement on a provisional basis according to Article VI, paragraph 2 of the Arrangement in anticipation of full acceptance. The number of participants has thus increased to 24. The International Meat Council (IMC) adopted the agenda set out in GATT/AIR/1915.

#### Election of Chairman and Vice-Chairman

2. In accordance with Rule 2 of the Rules of Procedure, the IMC shall elect a chairman and a vice-chairman at its first regular meeting of the year, i.e. normally in June. The election shall take immediate effect. The IMC unanimously elected Ambassador Federico Grünwaldt Ramasso (Uruguay) as Chairman and Mr. Philip Douglas (Canada) as Vice-Chairman.

#### Admission of observers under Rules 11 and 14 of the Rules of Procedure

3. Since no new request for observership under these Rules had been submitted to the IMC since its last meeting, no action was required under this item.

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<sup>1</sup>A list of participants will be annexed to the approved report

Examination of the functioning of the Arrangement

4. Under this item participants reviewed the functioning of the IMC as well as the operation of the Meat Market Analysis Group.

5. Participants agreed that the IMC had been working in a satisfactory manner in its three years of existence. It was pointed out that the necessary procedures for the IMC to carry out its work had been established; a regularly updated data base concerning developments in the world market situation has been set up through the questionnaire; to assist the IMC with, in particular, the factual and technical aspects of the analysis of the market situation and outlook the Meat Market Analysis Group was created. Procedures under which members of the IMC can seek detailed explanations of the operation of national policies in the beef sector have been instituted, helping to give participants a more complete understanding of all the elements having an impact on trade. It was noted that these procedures were working well as testified by participants' willingness to discuss policy questions. It was also pointed out that the Secretariat had produced a number of useful papers in different areas of the beef sector, papers which had assisted the IMC in its discussions and one in particular would be of continuing assistance in monitoring the world market situation and providing an early warning function in detecting any imbalance in the world beef market.

6. Moreover, participants emphasized that the objectives of the Arrangement should always be kept in mind in order for the work of the IMC to progress, and in particular the objectives of promoting the expansion, ever greater liberalization and stability of the international beef and livestock market by facilitating the progressive dismantling of obstacles and restrictions to world trade in bovine meat and live animals as well as the objective of securing additional benefits for developing countries inter alia by means of promoting long-term stability of prices and maintenance and improvement of export earnings.

7. In accordance with the terms of reference given to the Meat Market Analysis Group (MAG) (IMC/4, paragraph 7), the IMC reviewed the operation of the Group. Since its inception, and after a trial meeting in June 1981, the MAG has held four meetings. Participants held the view that the work of the MAG had been very successful and of great assistance to the IMC in analysing the short term market situation. It was noted that the observers from ECE, FAO, OECD and UNCTAD contributed valuable information and the importance of their participation was stressed. It was also stressed that the presence of meat experts at these meetings was invaluable and countries which were not regularly doing so, were urged to ensure the participation of experts at future meetings.

8. The IMC agreed that the work of the MAG should continue in its present form, modifying the terms of reference to indicate that "the work of the Group shall be reviewed by the IMC as necessary". Participants felt that the MAG should look at the situation of other meats in relation to the bovine meat sector in some more detail and keep itself closely informed as to developments in associated sectors. However, it was stressed that participants should not lose sight of the fact that this is the Arrangement Regarding Bovine Meat, not allowing the deliberations to be diverted from participants' principal concerns in the bovine meat sector. It was also pointed out that in order to discuss more in depth other meats in relation to bovine meat, participants would have to provide the information needed concerning these other meats, principally sheep meat, pork and poultry meat, to the Secretariat.

9. Under this item the representative of Argentina said that the time has come for the IMC to give greater emphasis to the work as concerns the consideration of national trade policies of member countries which in his opinion constituted one of the most important factors influencing the evolution of the international meat market. He said that in recent times certain countries had adopted measures which included financial facilities, measures which had consequences that were harmful for all participating countries, in particular for traditional exporters and developing countries but also for other countries since decreasing export earnings for traditional exporters and developing countries would affect their possibilities to import capital goods.

10. The representative of Australia agreed with the representative of Argentina and said that as far as the trade expansion role of the IMC was concerned the real work still lay ahead. He said that the international trade in bovine meat remained highly restricted. In particular, most of the traditional importers were also large producers of beef and some of them had high cost industries which were protected by significant limits on imports. As a result, consumption in these countries was often restricted by the high prices that consumers had to pay. Furthermore, he said that there was a danger of further increases in production in these countries which could result in additional restrictions on trade. These were in his opinion matters of great concern to the IMC, and which needed increasing attention at future meetings.

11. The representative of the European Communities expressed the opinion that more emphasis should be put on the realities and the factual aspects of the evolution of the market in order for the work of the IMC to be successful in the medium term. He wondered whether the decrease in the price level of bovine meat was not more due to the important stocks of bovine meat at the United States border, to the stocks of sheep meat accumulated at the borders of the Community, and to the very important monetary depreciation in the principal exporting countries than to measures taken by importing countries.

12. The Canadian representative drew the attention of the IMC to the important change which in his opinion has occurred since the IMC was established, namely a basic structural change in the pattern of meat consumption in many countries. He said that this appeared to have resulted from the combined effect of a number of factors such as the relative rate of productivity in relation to pork and poultry meat production as compared to beef. Also, there would appear to be greater adaptability of pork and poultry enterprises in relation to capital-intensive factory-type farming which reduced the uncertainty often involved in beef production. Furthermore, he said that in a number of importing countries changes in eating habits and lifestyles seemed to be favouring pork and poultry production as opposed to beef production.

Therefore, in his opinion it was essential for the IMC to give more attention to changes in pork and poultry meat production, trade and prices at its future sessions. He was pleased to see that the Secretariat had already taken these meats into consideration in the documentation it had prepared for the meeting.

13. The representative of the United States agreed that other meats were of fundamental importance in the discussions of MAG and IMC. He further said that another aspect was that in his country the actual funds allocated by consumers for food, in proportion to income, including meat, were going down, although expenditures for meat continued to rise.

14. The representative of New Zealand said that the beef trade of his country was significantly different from a number of other countries, in that his country exports the great majority of its beef to the United States market. However, he said, his country maintained a close interest and concern in the effects of subsidized exports on other markets in the first place because of the displacement of beef that can occur from other markets as a result of the competition offered to unsubsidized exports of beef and veal; secondly, and of most importance to his country, the displacement of alternative meats such as mutton and lamb. The high level of subsidized exports, he said, and their effect on sales from efficient producers, are viewed with real concern.

Replies to the questionnaire

15. In order to enhance the possibility of timely replies to the statistical replies, the Chairman of the Meat Market Analysis Group proposed, on behalf of the Group, the following amendment to Rule 15 of the Rules of Procedure: replace ... "at least six weeks before each June and December meeting" by "at the latest by 15 April and 15 October respectively." The International Meat Council decided to adopt the proposed modification of Rule 15 of the Rules of Procedure.

16. The IMC was informed that in accordance with Rule 18 of the Rules of Procedure a majority of the participants had revised replies to the inventory part of the questionnaire in time for the meeting. Those that had not yet done so were invited to update it soonest.

Evaluation of the world market situation and outlook

17. For the discussions under this item, the IMC had at its disposal the following documents, prepared by the secretariat: "Status report on the present situation and probable developments in the bovine meat sector" (IMC/W/21); "The medium-term world demand/supply outlook in the light of Article IV, paragraph 1(a) of the Arrangement Regarding Bovine Meat" (IMC/W/16/Rev.1); "Summary tables" (IMC/W/2/Rev.6) and replies to the questionnaire.

18. Reporting on the discussions in the Meat Market Analysis Group concerning the situation and outlook, the Chairman of the Group, Mr. Patrick Robertson, said that as opposed to previous meetings of the MAG where, he understood, there was a conspicuous lack of enthusiasm for the future prospects of the bovine meat market, participants at this meeting were inclined to be somewhat more optimistic. It must be added however that some participants were more optimistic as regards the significance of certain developments than were others, but even the more cautious seemed to agree that markets were "levelling out". At the same time, the more optimistic participants had to agree that significant improvements in the value of trade would probably not occur before the end of 1983.

19. He further said that the most basic difference of opinion with respect to the extent of recovery in international beef markets was with regard to the significance to attach to the recovery of general economic conditions underway in a number of countries. The "optimistic camp" tended to believe that there would be a sustained, rapid recovery in Western economies causing a parallel recovery in meat demand. The "less optimistic camp" doubted both the extent of economic recovery and the significance of this recovery for meat demand. They pointed out a

number of factors which endangered the economic recovery (e.g. the prospect of rising interest rates). They also pointed out that this recovery may be different from others in that it is expected that high unemployment rates would persist for at least the next 2-3 years. This could be an important factor causing slower than normal recovery in beef consumption.

20. Some participants, he said, also indicated that they believed that much of the price improvement which had been experienced in beef markets in the past several months was really of a "negative" nature. That is to say, that this improvement had been due to factors other than improvement in basic demand conditions in importing countries. They pointed to two factors in this respect: (1) depreciation and devaluation of exchange rates in exporting countries which have had the effect of, at least temporarily, increasing cattle prices in the domestic markets; and (2) declining beef supplies in certain importing and exporting countries.

21. He further said that the more cautious pointed to a number of worrisome factors in the near term outlook which could threaten any inclinations for recovery in international beef markets. Of primary importance was the import requirements of the Soviet Union. These requirements were likely to decline in 1983 and could decline sharply in 1984. Beef production levels in the Soviet Union were likely to rise, as much through increased carcass weights as through increased cattle numbers. Moreover, supplies of competitive meats, especially of poultry in the USSR, was expected to be high. Of lesser, but still significant, importance was the prospect of stable exportable supplies on international markets: of the six principal exporters four expected relatively stable exports while increased EC exports would largely offset the reduction of those of Australia. Finally, although participants were relatively hopeful that the prospect of rising feed grain prices on world markets towards the end of 1983 would help beef demand by restraining the growth of production of competitive meats, they also feared the consequences of such a development for costs of beef production in certain countries.

22. He said that his interpretation of where the discussion led to was the following: the Group foresaw the prospect of some, but not significant, recovery of returns on export markets during the remainder of 1983. Export volume was likely to be roughly the same as in 1982. Beyond the end of 1983 the Group anticipated more rapid strengthening of markets, conditional upon a sustained and strong recovery in general economic conditions. The Group qualified the expression "more rapid" by pointing out that the strengthening of the market would probably be less rapid than that which occurred in 1978-79, given expectations with regard to unemployment levels. Regardless of the possible threats to any recovery of international markets it seemed fairly clear that the end of the very difficult period which had affected international beef markets these last 2 to 3 years had been reached.

23. The Council took note of Mr. Robertson's report. Participants agreed that the report correctly reflected the views regarding the outlook. Some participants wished to reaffirm their belief that the outlook was not very optimistic, while others believed that there were many reasons to be optimistic.

24. The representative of the European Communities expressed his agreement with the Chairman's report. He also expressed his optimism regarding the outlook. It was his view that an improvement in international beef markets depended principally on an improvement in general economic conditions. Such an improvement was likely as economic recovery already seemed to be underway. He indicated that the destination of EC exports in 1983 would principally be to countries of Eastern Europe including the USSR and to markets in the Middle East and North Africa.

25. The representative of Australia remarked that both positive and negative elements existed for the future market situation. Amongst the positive elements were: the improvement in prices in the United States; the measures being taken by Japanese authorities to stimulate beef consumption in Japan; and continuing strong demand for beef in the Middle East, North Africa and Southeast Asia. Amongst the negative elements he noted: the expected increases in pork and poultry

production, the expected decrease in imports by the Soviet Union, and the anticipated increase in exports by the EC. With regard to the latter factor the Australian representative expressed particular concern regarding the possibility of increased exports to North Africa and the Middle East.

26. The representative of Canada commented that while beef production in most countries was expected to stagnate or decrease during the next couple of years, that in the EC was expected to increase. He expressed the view that beef production in the EC was becoming increasingly insulated from world market conditions. He also pointed out that this production increase was expected to occur while cattle numbers would remain relatively static.

27. The representative of Argentina stated that he was pessimistic that either economic recovery or improvement in conditions on world bovine markets would soon occur. He indicated that the economic recovery which seemed to be underway appeared to be very frail. Moreover, he stated that improvements in market conditions in the United States and Japan were of little significance to Argentina. In fact Argentina faced decreasing import demand in the USSR and increasing exports by the EC. These two factors have caused and will continue to cause a depression of prices Argentina obtains on world markets.

28. The representative of the United States indicated that, despite the higher levels of female cattle slaughter and of calf slaughter which had occurred during the first half of 1983, he did not expect any significant decrease in beef production in 1984. In fact, it was expected that beef production levels would remain fairly stable. This fact, he pointed out, combined with weakness in beef demand probably meant that the current increase in cattle prices in the United States represented the peak levels that they would reach for some time.

29. The representative of Romania informed the IMC that the drought conditions which have existed in his country during the last 2-3 years have created difficulties for the beef industry. The beef herd has

decreased in the last two years by about 3 per cent. As a consequence, in 1982 Romania became a net importer of bovine meat after years of being a net exporter. The authorities are very concerned about this situation.

30. The IMC discussed briefly the medium-term paper prepared by the Secretariat. It was agreed to keep it on the agenda for an in-depth discussion at the IMC meeting in December 1983.

Examination of national policies linked to trade in bovine meat and live animals

31. At the December 1982 meeting of the IMC it was decided that it would be useful to have flexible guidelines for the discussion of national policies. It had been decided that questions which parties wished to address to other parties should be sent to the secretariat some 30 days ahead of IMC meetings. There had been two sets of written questions received by the secretariat in advance of this meeting: one from Australia (IMC/W/23) and one from Canada (IMC/W/24). Policy questions were addressed to the following delegations: European Community, Japan, Sweden, United States, Australia, and Argentina.

32. Concerning inquiries regarding measures being taken to attenuate future cyclical increases in bovine meat production in the EC, the representative of the European Community indicated that the EC's major goal in this regard was to attain a balance between market prices and costs of production in the bovine meat sector. As concerns the existence of programmes in the EC to encourage beef consumption he indicated that the EC applies a programme of reduced-price sales of beef from intervention stocks to "social" institutions. Promotional campaigns are carried out by producer organizations in the EC. Regarding the EC's export system, he indicated that the "world prices" used in the calculation of export restitutions were the average of prices existing in major competing exporting countries. The IMC was also informed of the EC's total expenditure on beef export restitutions in each of the last 8 years. Moreover, it was informed that Irish

exporters had been able to win tenders in the Egyptian market in the last year principally because Irish beef prices had been abnormally depressed relative to the average price in the EC. To a question as to whether the EC was contemplating measures to deal with the developing surplus of milk production in the EC, he indicated that no such measures were being contemplated. He asserted that it was not the EC's view that the way to reduce milk production was to reduce cow numbers. The EC viewed cow numbers as a stable factor in both the short and medium terms.

33. The representative of Japan indicated that he believed that Australian concerns with regard to the Japanese chilled beef import system were being resolved in bilateral consultations between the two countries. Moreover, since they were matters of a highly technical nature he thought that there would be little use in pursuing these questions in the IMC. The IMC was informed that as from August 1983 the number of retail stores permitted to handle imported beef in Japan would be increased from 2,300 to 3,000. Additionally it was confirmed that the Japanese Agricultural Policy Council had recommended that Japanese agricultural policy be directed towards self-sufficiency and efficiency. The Japanese Diet had adopted a law indicating that the promotion of the cattle industry be pursued. The Agricultural Policy Council's forecasts of production and consumption would form the basis for Japanese Agricultural Policy to 1990. However, according to those forecasts Japanese beef self-sufficiency will fall to 71 per cent by 1990 compared to 73 per cent in 1978. In 1990 consumption is projected to total 850-950,000 tons while the goal for production is 630,000 tons.

34. Responding to questions regarding Sweden's beef export policy the representative of Sweden said that the Market Regulation Association meets every three weeks. The market situation is discussed for beef, pork and certain dairy products. A judgement is made as to whether measures, including exportation, are needed in light of the market situation. With respect to exports of beef there is competition amongst different exporters to obtain the right to export and arguments are presented as to how much money is needed to cover export costs. He also

explained how the beef producers in Sweden bear the cost of exporting: as the result of agricultural price negotiations prices for beef cattle are set. If the Swedish government does not wish that the entire price increase to the producers be passed on to consumers it can subsidize away the increase to consumers. These subsidies are called consumer subsidies. In fact, consumer prices are restrained and producers are compensated, in the form of a grant, for the difference between the price they should have received and that actually realized from the market. This "price addition" has been used more and more in recent years to finance exports. This is money which normally would have gone to producers. The IMC was also informed that imported protein feed prices were raised twice in 1982 to discourage beef and other meat production. Sweden imports roughly eighty per cent of its protein feed needs, and approximately half of protein feeds are fed to bovine animals. Sweden has also introduced other measures aimed at discouraging either directly or indirectly, beef production. They include the following: slaughter fees for cows, pensions to older farmers if they cease dairy production, periodic premiums for the slaughter of calves and credits granted for investment in new agricultural enterprises.

35. Responding to an inquiry regarding the impact of a dairy cow cull programme, supposedly introduced in the United States last year, on manufacturing beef production, the representative of the United States said that no such programme had been introduced. Manufacturing beef production has remained at about year-earlier levels. As regards the entire market it was expected that the decrease of imported beef would be the major influence on the market for 1983. He expected that manufacturing beef production could increase if dairy producers did not view as adequate the support prices soon to be set. He also indicated that he anticipated that the PIK (Payment in Kind) programme would have relatively little influence on beef production in 1983, neither in total nor in terms of non-fed versus fed beef production.

36. The representative of Australia supplied the IMC with revised medium term forecasts for the Australian beef industry in light of the cessation of drought conditions in early 1983. He also informed the IMC of measures which had been taken to assist Australian producers

during the period of the drought. There were two main programmes; the first was a fodder subsidy scheme (of which the estimated cost for 1982-83 was A\$ 98 million) and the second was an interest subsidy scheme where interest rates in excess of 12 per cent were subsidized (the estimated cost of which for 1982-83 was A\$ 4.4 million).

37. Concerning questions regarding the effects of recent changes in the value of the Argentine currency on the future volume of beef exports, the representative of Argentina indicated that exchange rate changes have little to do with export policy.\* Exchange rate adjustments are simply meant to deal with high rates of inflation in Argentina. In fact beef exporters were paying an export tax which amounted, for boneless quarters, to 20 per cent ad valorem. He also informed the IMC that the current system in Argentina was replaced by what is called the Argentine peso. The Argentine peso contains four zeros less than the old peso. At 31 March the value of the Argentine peso was about 8 pesos per US\$.

#### The Instability of World Beef Markets

38. As a basis for discussion under this item a contribution by Australia (IMC/W/22) was circulated as well as extracts of three studies concerning instability undertaken in the OECD and the FAO. The importance of this subject was stressed by a number of participants who felt that instability in the bovine meat market is one of the most important problems towards the solution of which the IMC is expected to make progress. It was noted that the factors contributing to instability had been discussed at some length in previous IMC and MAG meetings. Some participants noted the net increase in import restrictions in the major traditional importing countries during the past decade and the consequent increase in price instability. Also, it was felt that the emergence of some traditional importing countries and high cost producers as exporters was another important factor increasing instability during that period. National policy measures were also factors which could affect access and prices, thus aggravating the effects of other factors such as the long lead time of the production of

beef; general economic conditions; fluctuation of production costs; and competition from other meats. Moreover, health and sanitary regulations were considered as often capricious and contradictory having the effect of restricting trade and thus increasing instability.

39. Other participants, although conceding that measures affecting the access to markets have an effect on international trade, thought that the instability of the world beef markets was essentially due to the fluctuations of supply and demand, provoked by the cyclical gaps in meat production and the consequent late responses to these fluctuations. Furthermore, some felt that the stabilization of international markets would depend on the stabilization of national markets and that measures taken in this direction should be welcomed.

40. It was noted, however, that instability in international beef markets seemed to have been slightly reduced during the first two years of the 1980's. In this connection the importance of the guaranteed access arrangements which emerged from the MTN was stressed as a new factor in providing an increased degree of stability to the world beef market. Furthermore, it was said that more progress could be made in this area and it is in that direction that the IMC should be looking.

41. In order to discuss the subject in depth the IMC decided to request the Secretariat to prepare for the December meeting a paper on the subject of instability under the title "The Instability of the World Beef Market" with the following general outline: (a) factors causing instability including the role of national policies on instability; (b) effects of instability on consumption, production and trade; (c) prospects for reducing instability in the future. When preparing this paper, it was suggested that the secretariat take into account a certain number of factors affecting the stability of world beef markets, but it was decided that it should be given full freedom on the analysis of the entire subject. It was also agreed that participants should cooperate with the Secretariat giving it all the assistance and information available.

Other business

42. Under this item participants exchanged views on the agreement reached in the GATT Council on 20 April 1983 "that the Council invite the MTN Committees and Councils to take account of this Ministerial decision\* in their annual reports, and to transmit these reports to the Council, so that the Council could assist the CONTRACTING PARTIES in the review called for in the decision, in the light of these reports and of observations by delegations. The Council would report to the CONTRACTING PARTIES at their thirty-ninth session on the results of its discussions. For this purpose, these reports by the MTN Committees and Councils would need to be in circulation and available to members of the Council not later than 10 October 1983..." (C/M/167, item 6).

43. It was agreed that the Secretariat draw up this report, and circulate it to participants of the IMC for approval before having it put into general circulation.

Date of next meeting

44. The IMC decided to hold its next meeting on 8 and 9 December 1983, preceded by the meeting of the MAG on 5 and 6 December 1983.

\* i.e "to review the operation of the MTN Agreements and Arrangements ... with a view to determining what action if any was called for, in terms of their decision of November 1979 .. the review should focus on the adequacy and effectiveness of these agreements and arrangements and on the obstacles to the acceptance of them by interested parties".