

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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Arrangement Regarding Bovine Meat

International Meat Council's Working Party

Draft Report by the Chairman

1. In April 1984, the International Meat Council (IMC) held a special meeting in accordance with Articles IV:6 and V:2 of the Arrangement Regarding Bovine Meat. This meeting was called at the request of Argentina which considered that the international bovine meat market was going through a critical period, caused, inter alia, by the following factors: decreased demand; surplus production; competition from subsidized exports; import practices and effects of the international recession. Several participants concurred with the views expressed by Argentina. Some other participants were of the opinion that there was no acute crisis at the moment, but that one could be expected to emerge in the near future; it would therefore be of interest to move forward and agree on action to prevent such a crisis. To this end, participants agreed that the special meeting would recommend to the June 1984 meeting of the IMC the setting-up of a working party, which would be open to all signatories of the Arrangement Regarding Bovine Meat.

2. At its meeting in June 1984, the IMC decided to establish a working party with the following terms of reference:

"To assist the International Meat Council in carrying out its functions under the Arrangement Regarding Bovine Meat and in particular its Article IV, paragraph 2. To analyse, in the light of the current situation and probable development of the international bovine meat market, the existence of a serious imbalance or threat thereof. To make an assessment of factors, including export subsidies and other forms of assistance affecting exports, that are leading to, or may lead to such an imbalance or threat thereof. To investigate the effects in particular on traditional exporting countries of such an imbalance or threat thereof and to see whether this situation is hampering the attainment of the objectives of the Arrangement. To make proposals, for the consideration of the International Meat Council, for suitable steps to be taken to overcome the imbalance or the threat thereof."

3. It was agreed that the working party would complete its work by December 1984 and that its Chairman would report to the December 1984 meeting of the IMC. As Chairman of the working party the IMC elected Mr. Antti Satuli (Finland).

4. The working party started its work in June 1984 and held two meetings in September, one in October and two in November. The working party adopted a work programme which followed closely the terms of reference. The Report is divided into (a) an analysis of the situation and outlook of the bovine meat market; (b) a summary of discussion of factors that are leading to, or may lead to an imbalance or threat thereof in the international bovine meat market; (c) a summary of the discussion concerning the effects in particular on traditional exporting countries of an imbalance or threat thereof, and of the discussion as to whether this situation is hampering the attainment of the objectives of the Arrangement; [and (d) proposals, for the consideration of the International Meat Council, for suitable steps to be taken to overcome the imbalance or threat thereof¹.]

¹ to be discussed at the next meeting of the IMC working party.

(a) ANALYSIS OF THE SITUATION AND OUTLOOK IN THE
INTERNATIONAL BOVINE MEAT MARKET

(i) Introduction

5. It would appear that the international bovine meat market is seriously depressed in 1984 and that there exists a clear threat that this situation will worsen in 1985. Indeed it appears that production of beef will be larger than consumption leaving sizeable quantities in stock overhanging the market and that a further deterioration of the production/consumption ratio can be expected in 1985. As a consequence, the international price of beef in US dollar terms is seriously depressed in numerous major import markets and is projected to be further depressed in 1985. Furthermore, the price of beef expressed in the national currencies of some countries has fallen in real terms over the past several years, discouraging producers from rebuilding herds. Were it not for the strength of internal demand in some of these countries, real prices would have decreased further and herd rebuilding would not have started there. Also influencing the situation and outlook of the international bovine meat market is the major change in trading patterns that appears to have taken place in the last few years in that a major net importer, whose export policy enables it to remain competitive, whatever the level of world market prices, has now become the world's leading beef exporter.

6. The depressed nature of the situation is illustrated by the projected growing surplus of export supplies among major trading countries (accounting for more than 80 per cent of world trade in bovine meat) relative to probable imports in 1984-1985, as shown in Table 1 below.

7. The depressed situation of the international beef market is further exacerbated by the virtual separation of the world market into two parts for the trade of fresh, chilled and frozen beef since several major importing countries do not accept imports of fresh, chilled and frozen beef from countries with foot and mouth disease problems¹, thus excluding some major exporting countries from their markets, and

¹The "foot and mouth disease-free" zone is comprised principally of North America, Central America, Oceania, Japan and certain other countries of the Far East. As regards the EEC, only Denmark and Ireland are considered to be free of the disease. It should be noted that, except for trade in cooked and canned product, which does not appear to have a significant influence on the present situation and outlook, there is no longer any major trade between the two "zones". While at least two EC member states qualify to export fresh, chilled or frozen beef into the disease-free zone, they are limited either by quotas (in the case of exports to the United States) or by the absence of restitution (in the case of exports to the Far East). Similarly, while technically qualifying to export into the other zone, there are now relatively few exports by countries in the disease-free zone to countries in the other zone, the principal reason being that exporters are either no longer able to compete at the extremely low prices which exist in the "foot and mouth disease" zone, or that they are limited by market restrictions.

rendering competition for the rest of the market even more intense. Table 2 illustrates the situation and outlook for selected countries in the so-called foot and mouth disease zone of world bovine meat trade. Projections of imports for the major trading countries suggest a 2.6 per cent decrease in imports in 1984 and a further 1 per cent decrease in 1985. Projections for major exporting countries suggest that exports could increase by 2.3 per cent. Moreover, projections for 1985 indicate a further 3.5 per cent increase. Put in other words, while the imports of major importing countries in this zone exceeded exports of major exporting countries by 117,000 tons in 1982, exportable supplies are expected to exceed import demand by some 187,000 tons in 1984 and by around 255,000 tons in 1985.

8. In contrast, as Table 3 indicates, it is expected that the trade balance in the "foot and mouth disease-free" area during 1984 and 1985 is, and will be, improved compared to what it was in 1982-83. For 1984, a sharp decrease of exportable supplies in the two major exporting countries of the region (Australia and New Zealand) were matched by a more modest decrease in aggregate import demand. (Despite the improved trade balance in this area in 1984, however, import prices expressed in US\$ decreased in some markets.) For 1985, exportable supplies and import demand are expected to progress by +7.3 per cent and 3.7 per cent respectively, which translates into an excess of exportable supplies of around 37,000 tons. (To complete the picture, Table 4 gives some indications of developments in trade of manufactured meat products.)

Table 1
Selected Countries' Trade in Beef and Veal^{1/}

A. EXPORTS

	1983	1984 ^{2/}	1985 ^{2/}	%Change 1985/84
Argentina	415	270	300	+11.1
Australia	757	642	668 ^{3/}	+4.1
Brazil	463	525 ^{3/}	575 ^{3/}	+9.5
EEC	500	725	710	-2.1
New Zealand	361	295	353	+19.7
Uruguay	232	127	120	-5.5
United States	125	142	147	+3.5
Canada	81	78	74	-5.1
	2,934	2,804	2,947	+5.1%

B. IMPORTS

	1983	1984 ^{2/}	1985 ^{2/}	%Change 1985/84
Brazil	25	60	80	+33.3
Canada	92	102	102	0
EEC	384	360 ^{3/}	350 ^{3/}	-2.8
Japan	197	215 ^{3/}	240 ^{3/}	+11.6
United States	885 ^{4/}	805	828 ^{3/}	+2.9
USSR ^{4/}	335 ^{3/}	300 ^{3/}	300 ^{3/}	0
Middle East	780 ^{3/}	800 ^{3/}	800 ^{3/}	0
	2,698	2,642	2,700	+2.2%

^{1/} '000 tons, carcass weight equivalent, includes fresh, chilled, frozen, cooked, canned and otherwise prepared bovine meat, but excludes live animals

^{2/} forecast

^{3/} secretariat estimate

^{4/} fresh, chilled and frozen only

TABLE 2

Trade^{1/} in Bovine Meat of Selected Countries outside the
"Foot and Mouth Disease-Free" Zone

	<u>1982</u>	<u>1983</u>	<u>1984^{2/}</u>	<u>1985^{2/}</u>
(a) <u>EXPORTS</u>				
EC	393	500	725	710
Argentina	522	415	270	300
Brazil	362	463	525 ^{3/}	575 ^{3/}
Uruguay	169	232	127	120
	1,146	1,610 +40.5%	1,647 +2.3%	1,705 +3.5%
(b) <u>IMPORTS</u>				
EEC	374	384	360	350
USSR ^{4/}	439	335	300	300 ^{3/}
Middle East	750 ^{3/}	780 ^{3/}	800 ^{3/}	800 ^{3/}
	1,563	1,499 -4%	1,460 -2.6%	1,450 -1%
IMPORTS MINUS EXPORTS	+117	-111	-187	-255

^{1/} '000 tons carcass weight equivalent, all meat (including cooked and canned) excluding live animals

^{2/} forecast

^{3/} secretariat estimates

^{4/} fresh, chilled and frozen only

TABLE 3

Trade^{1/} in Bovine Meat of Selected Countries in the
"Foot and Mouth Disease-Free" Zone

	<u>1982</u>	<u>1983</u>	<u>1984</u> ^{2/}	<u>1985</u> ^{2/}
(a) EXPORTS				
Australia	922	757	642	668
New Zealand	362	361	295	353
USA	115	125	142	147
Canada	82	81	78	74
	1,481	1,326 -10.5%	1,157 -12.7%	1,242 +7.3%
(b) IMPORTS				
USA	888	885	805	828
Japan	176	197	215 ^{3/}	270 ^{3/}
Canada	88	92	102	102 ^{3/}
South Korea	42	49	40	35
	1,194	1,223 +2%	1,162 -5%	1,205 +3.7%
IMPORTS MINUS	-287	-103	+11	-37
EXPORTS				

^{1/} '000 tons carcass weight equivalent, all meat (including cooked and canned) excluding live animals

^{2/} forecasts

^{3/} secretariat estimates

TABLE 4

Trade in Cooked, Canned and Otherwise Processed
Bovine Meat in Selected Countries ('000 tons)

	<u>1982</u>	<u>1983</u>	<u>1984^{1/}</u>	<u>1985^{1/}</u>
<u>(a) EXPORTS</u>				
EEC	38	38	40	40
Argentina	163	153	106 ^{2/}	120 ^{2/}
Brazil	237	304	340 ^{2/}	370 ^{2/}
Uruguay	8	10	8	8
Australia	24	31	40	40
Total	470	536	534	578

<u>(b) IMPORTS</u>				
EEC	138	144	140	140
United States	88	112
Canada	11	12	14 ^{1/}	15 ^{1/}
Middle East	55 ^{1/}	55 ^{1/}	60 ^{1/}	60 ^{1/}
Total	292	323

¹ forecast

² secretariat estimates

(ii) Situation and Outlook by Country

9. In Argentina bovine meat production is expected to increase by some 9 per cent in 1984 compared to year earlier following a 2.7 per cent increase in cattle numbers in both 1982 and 1983. Herd rebuilding is expected to continue in 1985 as a result of higher domestic prices in 1984. Consumption is expected to increase by some 16 per cent to around 78 kg. per capita in 1984 due to increases in income level, and stable real prices on the internal market, whereas the price level on external markets has been decreasing. The strong internal demand, together with weak export prices and strong competition from other exporters, and despite an increase in production, makes it likely that Argentinian exports of bovine meat will decrease sharply in 1984 (by around 35 per cent), in spite of the abolition of the 20 per cent export tax on frozen beef from October 1984. For 1985, it is forecast that Argentina's exportable supplies could increase, due to a drop in consumption and further increases in production. However, actual export quantities currently forecast at 300,000 tons will depend on international prices at remunerative levels.

10. In Brazil, forecasts suggest an increase in exports of about 62,000 tons (13 per cent) in 1984 despite forecast decreased production (of about 3 per cent). In effect, it is expected that bovine meat consumption will decrease by more than production, the major reason being the deterioration of economic conditions in Brazil and, to a lesser extent, the continued competition being offered to beef from pork and poultry. In addition, it would seem that exports are being stimulated by the rather rapid devaluations of the cruzeiro. Furthermore, in 1985 consumption is expected to stabilize while a slight increase in production is possible. Exports could, therefore, increase by about 50,000 tons. As in the previous two years, the biggest growth is expected to be in exports of fresh, chilled and frozen beef.

11. Most recent forecasts suggest that bovine meat production in the EEC will increase by about 300,000 tons in 1984 (4.3 per cent). As there is expected to be a slower growth in consumption than in production during this year, a substantial growth of market surplus is forecast. A portion of the surplus will be temporarily absorbed into intervention stocks or private storage stocks (under the private storage aid system installed from early August 1984), forecast to total at least some 600,000 tons by the end of the year. The majority of the increase will, however, be made available to world markets. Exports are forecast to increase by some 225,000 tons in 1984 (45 per cent), to a record level of some 725,000 tons (excluding live cattle). While the market imbalance in the EEC is partly due to the performance of bovine meat consumption (due in part to the recessionary economic conditions and in part to the attractive prices of pork and poultry), it is primarily due to the increase in production, which results from two main factors:

Note: "tons" refers to "metric tons, carcass weight" when not otherwise stated.

(a) cyclical and trend increases in production due to an uptrend in cattle numbers since 1981 and to an increase in productivity. Both increased cattle numbers and increased productivity would appear to have derived in part from the price support systems for beef and for milk;

(b) increased dairy cow slaughter due to decreased profitability in the dairy sector and to changes made in EC dairy policy¹.

12. In 1985, bovine meat production in the EEC is expected to increase by a further 50,000-100,000 tons. The two factors mainly responsible for the increases in 1984 will also be the major causes of increased production in 1985. Additionally, however, the current and prospective price deterioration of the world cereal and protein feed supplement markets is likely to have an unfavourable impact on the EEC bovine meat market. On the one hand, it is likely to provoke a further increase of average carcass weights of adult cattle. On the other hand, it will stimulate production of pork and poultry, (indeed it would appear that it may already be doing so), thus adversely affecting beef consumption. As regards exports, little change is forecast. The EEC is also a major importer and EEC imports are expected to decline by about 25,000 tons, or by 6 per cent in 1984, in part because of a decrease of 10,000 tons (product weight) of imports permitted under the so-called "balance-sheet" quota regime. A further reduction of some 10,000 tons is forecast for 1985.

13. As regards the Soviet Union, it is estimated that after having decreased by some 24 per cent or by about 100,000 tons in 1983, Soviet bovine meat imports could decrease by about a further 35,000 tons in 1984, the main reason being that meat production levels have exhibited a strong recovery in 1983-84: to August 1984, meat production was 8 per cent higher than year earlier, and beef production was 6 per cent higher. In addition, it appears that the Soviet Union has placed increased emphasis on cereal grain imports (to support domestic production of pork and poultry), thus limiting, to some extent, the amount of foreign exchange reserves available for purchases of meat. It is believed that the main supplier of beef to the Soviet Union in 1984 will be the EEC. Little change in import levels is forecast for 1985.

14. With respect to the Middle East, estimates suggest that bovine meat imports into this region totalled 780,000 tons in 1983 and that an increase of only about 20,000 tons (2.5 per cent) should be expected in 1984. It is believed, moreover, that this level of imports does not truly reflect the weakness of import demand in the region, since this level has been maintained only by sharply reduced prices. For example, sales of boneless forequarter beef to Egypt during the first half of 1984 were reportedly priced in a range of US\$1,000-\$1,100 per ton as compared to US\$1,450-\$1,550 one year earlier. The basic reason for the

¹A full description of the policy changes can be found in GATT document DPC/W/37.

reduced import demand in this region is the depressed price of oil and the consequent reduction of income and foreign exchange reserves in the oil-producing countries. Also important is the competition provided to beef by poultry meat and sheepmeat. In addition to the high level of imports of both these meats, there is sharply increasing production of poultry meat in the region. For 1985, no change is expected in import levels of beef.

15. The situation in countries free of "foot and mouth disease" is dominated by the market situation in the United States, which, in 1984, is a complex one. For the year as a whole, bovine meat production is expected to decrease only very slightly (less than 0.05 per cent) from year earlier. However, because of a sharp improvement in beef demand in the first half of the year, prices of most classes of cattle, except for cows and feeder cattle, should average above year-earlier levels. The level of beef production has been higher than expected because of an unexpectedly high level of cow slaughter, due primarily to increased beef cow slaughter (although it had been expected that dairy cow slaughter would be relatively high due to the so-called "dairy diversion programme"). The high level of beef cow kill, in turn, seems to relate primarily to the continuation of drought conditions in certain areas of the country combined with insufficient returns from "cow-calf" production since 1981. The improvement in demand relates primarily to the improved economic situation (income in the first six months grew by about 6 per cent). Additionally, the price of pork, the principal competing meat for beef, is expected to increase by 15-20 per cent on average for the year, while consumption is expected to decrease by some 9 per cent for the year as a whole as a result of strengthening prices in the second half of the year. Notwithstanding the strength of the US dollar and the relatively strong demand for beef in the first half of the year, it is forecast that the United States' beef imports will decrease in 1984. Indeed it is currently projected that imports will not exceed the "trigger level" set under the Meat Import Law. Part of the reason for the decrease relates to the high level of domestic cow beef production; another part relates to the low level of export availability in Oceania and Central America. At the same time, the United States exports of bovine meat will increase in 1984 primarily because of expanded exports to Japan (which will account for roughly 80 per cent of its exports).

16. For 1985, beef production in the United States is expected to decrease by about 3 per cent, reflecting the cyclical decrease in cattle numbers which occurred in 1983-84 and indicating a slowing down of the liquidation of beef cow herds. In the face of continued strong demand (due in part to strong growth in consumer incomes and lower unemployment rates and in part to a cyclical upswing in pork prices), beef prices, and therefore the demand for imports, are expected to continue to increase. Moreover, it is expected that the "trigger level" prescribed by the Meat Import Law will increase in 1985. (Indeed, it is projected that it will rise above the GATT minimum access level of 566,000 tons for the first time since 1982).

17. Bovine meat production in Canada will decrease relatively sharply in 1984 (by about 4 per cent) which, combined with firmer beef demand and the fact that cattle prices in the United States have improved, means that cattle prices will average above year-earlier levels. Due to

a number of factors, Canada's production of cow beef could decrease somewhat in 1984 (in contrast to the United States where it could increase by 10-15 per cent); consequently there will be active demand for imported manufacturing-quality beef. It is possible that the quantity of imports could surpass the GATT minimum access commitment level of 68,500 tons (product weight), and reach 72,000 tons. The reason is that the "formula level" for imports under the Canadian Meat Import Law is below the minimum access commitment level. Even so, at this level, imports would be some 11 per cent above those of 1983. The most notable aspect of the Canadian import situation is the increased share accounted for by EEC exporters, which is expected to be about 30 per cent in 1984 (about 22,000 tons) versus 8 per cent (10,000 tons) in 1983.

18. Canadian bovine meat production is expected to decrease by about 3 per cent in 1985 and for roughly the same reasons as in the United States. It is possible that live cattle exports will decline by more than expected in 1985, in which case beef production would decrease by less than expected. It would seem, therefore, that demand for imported beef will increase. However, at present there is considerable uncertainty as to how the actual import situation will evolve. While increased imports from Oceania are likely to occur, the amount of imports which will come from the EEC is uncertain. In essence, it is unknown whether the cumulative reductions in export restitutions (of 20 per cent) on exports to North America in 1984 will stem imports from this source. Adding to the uncertainty is the continued instability of the Canadian dollar vis-à-vis the Irish pound and the Danish kroner.

19. Notwithstanding a higher level of bovine meat production and stable to slightly weaker beef prices, it is expected that beef imports will increase in Japan in 1984. The primary reason for this expansion is the further increase in import quota levels. The quotas for the first half of Japanese Financial Year 1984/85 are 76,000 tons, 4,000 tons more than year earlier. This increase followed a 6,000 ton (4 per cent) increase in the quotas for all of 1983-84 (i.e. to 141,000 tons). It might be noted that the proportion of "grain-fed" beef in total Japanese beef imports is continuing to increase. During the first half of 1984 the proportion amounted to about 32 per cent compared to about 30 per cent one year earlier. It is also expected that beef imports by Japan will increase in 1985 despite likely further increases in domestic beef production. Japan has signalled its intention to expand imports of beef by agreeing with the United States and Australia to increase its beef import quotas by a total of 36,000 tons (product weight) over the next four years. (It is believed that the agreement relates to both grain-fed and non grain-fed beef. The quantities of each are believed to be 27,600 tons of "grain-fed" and 8,400 tons of "grass-fed" beef, over the four-year period.)

20. The other major importing country in this zone of world trade is the Republic of Korea. Its imports in 1984 are expected to total about 40,000 tons (boneless weight), 7,000 tons less than in 1983. According to one source, however, imports in 1984 could be as low as 25,000-30,000 tons with a further decrease forecast for 1985. The decrease is apparently due to the existence of high levels of supplies of other meats, notably of pork, which is affecting the demand for, and the price of, beef.

21. Both Australia and New Zealand, the major traditional exporters free from foot and mouth disease, are expected to experience production decreases in 1984 and consequent reductions of exportable supplies. Australian production is now expected to decrease by about 8.4 per cent in 1984, following a 17.1 per cent decrease in 1983. There are primarily three reasons for this decrease: the decrease in cattle numbers which has taken place in recent years; the continuing improvement of pasture conditions and feed supplies since the ending of drought conditions in 1983; and the improvement of cattle prices in 1983 and early 1984, which induced many producers to begin withholding female animals from the market in order to rebuild cattle inventories. As regards the higher prices experienced in 1983 and early 1984, part of the strength was derived from the domestic market, but part was also due to higher returns from exports. This increase, however, was primarily due to the strengthening of the US dollar vis-à-vis the Australian dollar. The exchange rate has stabilized since early 1984 and, combined with no more than steady prices in the United States, Australian prices have since fallen below year-earlier levels.

22. In New Zealand, bovine meat production is forecast to decrease by about 16 per cent in 1984. The decrease seems to be the result of weather conditions, a very high level of cattle slaughter in the 1982 and 1983 seasons and an improved cost/price relationship for beef producers, which has encouraged retention of animals for slaughter at heavier weights. Consequent to the decrease in production, exports will, at 190,000 tons, be well below year earlier (-18.5 per cent). In 1985 it is forecast that beef production in both Australia and New Zealand will increase (by 2 per cent and 7 per cent respectively), indicating a stabilization of cattle inventories and the reduced slaughter level of dairy calves in 1983. Consequently, and in combination with likely increased access in the Japanese, Canadian and United States' markets, it is expected that bovine meat exports of both countries will experience growth.

(b) SUMMARY OF DISCUSSION OF FACTORS THAT ARE LEADING TO,
OR MAY LEAD TO, AN IMBALANCE OR THREAT THEREOF

23. Following its terms of reference, and after having analyzed the existence of a serious imbalance or threat thereof on the international bovine meat market in 1984 and 1985, the working party discussed factors that are leading to, or may lead to, such an imbalance or threat thereof. For the purposes of the discussion, the factors were divided up into four broad groups; namely, those affecting production, consumption, imports and exports respectively. However, it was recognized that there was a great deal of interrelation between factors, or certain of them, in these groups. It was pointed out that world trade in bovine meat took place with only a fraction (i.e. around 9 per cent; however, some major beef producers export a much higher proportion of their production) of world production entering that trade and that therefore even small changes in production, consumption and trade patterns could have serious effects on the market, even more so considering the fact that a large part of the market is closed to exports from a number of countries because of very strict sanitary and phytosanitary restrictions. It was noted that the serious imbalance or threat thereof existing on the international bovine meat market was not caused by a single factor, but by the cumulative effect of many factors, although several factors could be said to have a greater impact on the market than others, because of longer-term effects and as causes for changes in trade patterns through trade diversion and trade displacement effects. It was also noted that the working party was not concerned with the internal policies of any participating country, but only with the effects of the application such policies can have on third countries. Such effects could be, or could become, major factors leading to a serious imbalance or threat thereof on the international bovine meat market.

24. As concerns factors influencing production, it was mentioned that a number of factors contributing to imbalance in production were of a cyclical and often temporary nature, which given time, usually corrected itself by way of the normal interplay of supply and demand. Another factor that has had, and continues to have, important implications for beef production levels in the world, is the great technological advances achieved in the last couple of decades. These have resulted in better rearing and feeding techniques, thus enhancing productivity and production levels. It was noted that in some countries, productivity gains may have been greatly exacerbated by income and price support programmes which, initially, were only intended to raise farmers' incomes to a level equivalent to that of the industry workers' and to stabilize internal prices. The relative inflexibility in rules and administration of some such systems have instead acted as an incentive to farmers to produce more beef, notwithstanding stable and sometimes even decreasing consumption, resulting in surpluses that cannot be absorbed without great difficulty by the domestic market. It was noted that the level of income and price support in any given country could also have an effect on production surpluses by keeping retail prices at a level where consumption growth is slowed down. Programmes in other sectors of animal husbandry could also have effects on production of beef and in this regard, dairy diversion programmes in various countries were mentioned. Recent programmes of this nature have tended to increase beef production over the short and medium term, as farmers have slaughtered dairy cows to meet the programmes' objectives of reducing

milk output. It was suggested, in this regard, that the effects on beef production of such programmes could be minimized to a certain extent by altering the feed mix given to the dairy cows making them less productive and thus reducing the need for massive slaughterings. Finally, it was noted that exchange rate changes were also influencing production in some countries, since such changes could make it more or less profitable for farmers to produce for exports, thus influencing their production plans.

25. As with production, consumption of bovine meat, it was noted, is very much a function of prevailing price levels, although by no means exclusively. The economic recession of the last few years has had a deleterious effect on consumption levels in most countries, and more so in countries where no income and price support programmes exist. These countries, on the other hand, normally show a much more dynamic increase in consumption when economic and price conditions so permit. The elasticity of demand for beef is, however, also very often a function of traditional eating habits where the availability and price of other meats as well as other food products play an important role. It was noted that the relatively higher or lower level of price of beef in any given country could not alone serve as a criterion for consumption of beef, since this price has to be put into the context of the general income and price level of the country in question. It was noted, moreover, that consumption incentives or disincentives could be important to raise or decrease consumption of beef. It was also noted that some measures to promote production of beef, such as a guaranteed price, may have adverse effects on consumption by raising the retail price to a higher level than that at which it otherwise would have been. Likewise, the existence of import restrictions may, in some circumstances, raise the price to a level at which it would tend to have a negative impact on consumption growth.

26. As concerns factors influencing imports, it was noted that, as a result of strict sanitary and phytosanitary restrictions in a number of countries, access to certain markets for fresh, chilled and frozen beef from a number of exporting countries was prohibited. In practice, this means that a number of the most lucrative markets are closed to a certain number of exporters, reducing the international markets still available and rendering this smaller part of the international market more vulnerable to any changes or disturbances. The international bovine meat market has, in effect, been divided into two markets, one which is closed to all countries which have problems with, inter alia, foot and mouth disease, and one which is open to all exporting countries, including those free of such diseases as foot and mouth. However, those free of foot and mouth disease have tended to sell most of their available supplies on the markets where stringent sanitary and phytosanitary regulations exist, since these markets often pay a better price for the beef offered, and price competition is often less fierce on these markets, as only a limited number of exporters can compete for them. Even in markets that are normally open to meat from countries with foot and mouth disease, sanitary and phytosanitary regulations are often strict and entry is subject to a certain number of conditions which could have a restrictive effect on imports.

27. Other factors of importance are the level of the tariff, variable levies and other charges and quantitative restrictions. The importance of tariffs as a protective border measure has diminished quite considerably over the last 20-30 years although some countries still maintain relatively high tariffs on certain meat products. Of more importance today, it would seem, are variable levies and other charges and quantitative restrictions, the former because it renders, in particular, the cost of importing more difficult to assess over a longer period of time, since that cost frequently changes, but also because the levy frequently makes the meat too expensive to import; the latter because it sets, in general, an absolute ceiling on imports, or sometimes a ceiling on imports under more favourable conditions. Even the fact that a country has a system of quantitative restrictions, which is used only under certain circumstances, could act as a restraining force on exports to that country so as not to trigger those restrictions. A number of the factors that influence production and consumption also have an effect on imports such as income and price support, economic conditions, eating habits, price levels, competing meats, etc. It was noted that import measures of different kinds were used to protect the domestic farmers from disturbances on the international market, in an effort, *inter alia*, to keep internal prices at a certain level. It was also noted that excessive protection of the domestic market could have destabilizing effects on the international market by transferring some of the supply/demand adjustment process to that market.

28. It was noted, as concerns factors influencing exports, that many of those having an effect on production, consumption and imports also had effects on exports, for instance, support programmes, leading to ever increasing surplus production which, because of insufficient domestic consumption, had to be sold to third countries, often at very competitive prices; import practices, which restrict export opportunities; and prevailing economic conditions which in the past several years have severely affected import demand in a certain number of countries, making competition amongst exporters much more intense. It was noted, in this regard, that certain exporting countries had increasing difficulty, under these circumstances, in obtaining remunerative prices for their meat, and that at certain recent prices quoted on the world market, they did not cover their production costs, under which circumstances they preferred not to export. It was stressed that price was one of the most important problems on the world market today: a number of exporting countries, dependent on exports of beef for much of their foreign exchange earnings, did not get more for their beef today, in real terms, than they got in 1972¹. It was noted, in this regard, that if competition from certain exporting countries, which exported beef at subsidized prices, often undercutting prices offered by traditional exporters on certain markets, were to ease up, these traditional exporters would then rapidly be in a position to export increased quantities since they had the potential. It was also noted that underpriced or subsidized beef exports sometimes had the effect of diverting trade away from other meats to the cheaper beef available.

¹See Annex for examples

29. The opinion was expressed that one participant, which in recent years had increased its beef surplus substantially and was accumulating large stocks, had now become the world's largest exporter (from being a net importer only a few years ago), and was thus a major factor in the setting of prices on certain markets of the world market, making it even more difficult for others to compete. The view was expressed, however, that increased exports from this participant took place only to fill the gap left by other traditional exporters which, it was claimed, temporarily had little beef to offer, but this view was refuted by a number of other participants. In this regard, it was stressed that the comparative advantage held by a number of major producers must be allowed to prevail. It was considered that exchange rate changes could have important repercussions on trade in beef, making it more, or less, remunerative for the exporters, as the case may be. For instance, devaluations or depreciations of national currencies against the US dollar in a number of exporting countries in recent years, have temporarily helped beef exports of those countries before being absorbed by high inflation and interest rates.

(c) SUMMARY OF THE DISCUSSION CONCERNING THE EFFECTS IN PARTICULAR ON TRADITIONAL EXPORTING COUNTRIES OF AN IMBALANCE OR THREAT THEREOF AND OF THE DISCUSSION WHETHER THIS SITUATION IS HAMPERING THE ATTAINMENT OF THE OBJECTIVES OF THE ARRANGEMENT

30. In the working party discussion concerning the effects of an imbalance or threat thereof, it appeared that the imbalance or threat thereof was caused, or could be caused in the future, by a number of factors, and that these various factors, constituting the imbalance or threat thereof, had effects on two different "levels" of the market, i.e. on the international meat market globally on the one hand, and on individual countries' trade within that global market on the other. In the latter case, effects could also differ from one country to another.

31. Globally, it was noted, the imbalance or threat thereof had led to significantly decreased prices on the world market, a situation which threatened to worsen if economic conditions did not improve worldwide, inducing demand to pick up in various import markets and if export competition did not ease. It was also noted that growth in international bovine meat trade has slowed down because of the current situation and outlook. The imbalance or threat thereof did not only result in a decline in the value of traded products but also in a change in the conditions in which trade takes place. It was believed that the situation could deteriorate significantly in the next twelve to eighteen months if no steps were taken to turn the present trends.

32. As concerns effects of the imbalance on traditional exporting countries, it was considered that one of the major effects was the price depressing effect created by the heightened competition on a number of markets, often resulting in the loss or erosion of market shares for the traditional supplier, to the benefit of cheap meat from countries where exporters had the advantage of export subsidies. Not only did traditional suppliers of beef suffer competition from subsidized beef exports in a number of markets, but also traditional suppliers of other meats such as lamb have lost market shares and export opportunities to cheap beef exports in recent years. Competition from other cheaper meats, in particular poultry, added to the pressure on a number of markets. The price depressing effects of the imbalance or threat thereof further have the result of discouraging producers' investments in the bovine meat sector, since they are getting less returns on funds invested, i.e. profitability has been decreasing. Indeed, a number of countries have seen a very important contraction of their cattle herds in the last several years, and a restoration to former herd levels is not projected in the foreseeable future for some of these countries. It was further noted that countercyclical formulae added to the instability and imbalance of the international bovine meat market, affecting a number of traditional exporting countries by effectively putting a ceiling on exports to such countries. Also, protectionist practices and pressures, partly responsible for the imbalance or threat thereof, it was said, have greatly reduced export possibilities of, in particular, developing traditional beef exporting countries and, consequently, such countries' much needed foreign exchange earnings, negatively influencing development possibilities.

33. As concerns the discussion on whether this situation is hampering the attainment of the objectives of the Arrangement, it was stated that there could be no doubt that the imbalance and threat thereof was hampering the attainment of most, if not all of the objectives contained in Article I of the Arrangement Regarding Bovine Meat. In particular, it was noted that the increasing use of industry support arrangements, trade barriers and export assistance programmes has contributed to instability in world beef markets and has prevented the expansion and liberalization of world beef trade; that some export practices such as export subsidies have prevented greater rationalization and more efficient distribution of resources in the international meat economy; that no additional benefits have been secured for the international trade of developing countries; and that the stagnation of world beef trade and the erosion of the traditional position of efficient producers were contrary to the expansion of trade on a competitive basis of such producers. It was also stated that the bovine meat sector, together with the dairy sector, was probably the sector where government intervention was most generalized and apparent, and that any progress towards fulfilling the objectives of the Arrangement would necessarily be gradual and slow.

ANNEX

A. Argentina: Average prices of bovine meat

Year	<u>Live steers</u>		<u>Exports</u>	
	US\$ liveweight		US\$/ton f.o.b.	
	current	constant ^{1/}	current	constant ^{1/}
1970	0.29	0.29	498	498
1971	0.41	0.40	736	711
1972	0.47	0.40	834	699
1973	0.68	0.47	1,195	827
1974	0.56	0.35	1,144	710
1975	0.35	0.21	765	457
1976	0.35	0.21	705	424
1977	0.43	0.25	801	467
1978	0.48	0.26	828	441
1979	0.92	0.43	1,417	662
1980	0.99	0.41	1,649	676
1981	0.75	0.29	1,523	572
1982	0.78	0.29	1,199	442
1983	0.72	0.26	1,161	420

^{1/} deflator: All Commodities, USA

Source: based on data from la Junta Nacional de Carnes

B. Australian Prices: 1970-1983

Australian boneless cow beef prices in the US
(Average c.i.f. price in US cents/kg.)

Year	Current Prices	Constant Prices ^{1/}
1970	119.7	119.7
1971	123.0	116.5
1972	137.8	124.5
1973	189.2	164.2
1974	143.4	117.5
1975	120.2	90.6
1976	147.7	101.8
1977	138.2	85.6
1978	205.0	118.2
1979	278.3	147.7
1980	262.6	127.6
1981	233.6	103.6
1982	218.9	91.6
1983	229.7	92.5

^{1/} constant prices in 1970 dollar deflated by the US GNP deflator
Source: price data from AMLC