

GENERAL AGREEMENT ON

RESTRICTED

TARIFFS AND TRADE

Spec(88)7
18 February 1988
Special Distribution

Arrangement Regarding Bovine Meat

INTERNATIONAL MEAT COUNCIL

SEVENTEENTH MEETING

Draft Report

Chairman: Mr. Richard Hochörtler

1. The International Meat Council (IMC) held its seventeenth meeting on 10 December 1987. It was informed that no new country had signed the Arrangement since its last meeting. Signatories therefore remained at twenty-seven, representing thirty-eight countries. The IMC adopted the agenda set out in GATT/AIR/2516.

Examination of the functioning of the Arrangement

2. Under this item, the Chairman of the Meat Market Analysis Group made the following report to the IMC:

"Noting that the Summary Tables (IMC/W/2/Rev.15) which compile the data contained in the replies to the questionnaire have now been computerized, the secretariat made the following proposal to the Meat Market Analysis Group: that in future, replies to the questionnaire should not be reprinted and circulated in their present form of "official GATT documents", but should simply be photocopied and distributed as working papers in the meeting room. Those participants also wishing to receive photocopies in the permanent missions should contact the secretariat. This is a similar procedure to the one already in practice for the Dairy Arrangement.

Although the secretariat already circulates a trade matrix, it recognizes that there is room for improvement and will propose a revised table, or new format(s) for it, for the June 1988 meeting.

Also, and in order to render information more transparent and complete, it was decided that the written statements used by participants during the meeting would be circulated as working papers after the meeting.

Finally, Mr. Chairman, there was agreement that in the next meetings of the MMAG, a more in-depth analysis of the other meat markets situation and outlook should take place, in order to allow a fuller understanding of problems and issues affecting the bovine meat sector."

The IMC approved the secretariat's proposal concerning the distribution of the replies to the statistical questionnaire, as well as the MMAG's decision concerning the circulation of written statements.

3. Put forward by Canada (IMC/W/49 and Add.1) and New Zealand (IMC/W/51) in 1985, there were still two proposals on the table concerning the functioning of the Arrangement. Referring to the different context in which the Canadian proposal had been submitted two years ago, and especially to the fact that since then the Uruguay Round of Negotiations had started, the representative of Canada informed the IMC that his authorities had decided to withdraw the proposal.

4. The representative of New Zealand recalled that her country's proposal had been submitted at a moment when there was a great deal of concern that the Arrangement's effectiveness would suffer following the failure of the Working Party in 1984 to agree on recommendations dealing with the perceived 'imbalance or threat thereof' on the international beef market. She regretted that, since then, the proposals had been discussed only in the most general terms, and that the IMC was unable to agree on a basis for progress in the discussion of both proposals. At that time participants were still waiting for the Preparatory Committee to get under way, and New Zealand suggested that the IMC should play a more specific monitoring role, particularly with regard to standstill and rollback. Meanwhile, the Uruguay Round began and substantive progress had already been made in the Negotiating Group on Agriculture (NGA), with the tabling of several comprehensive proposals. Outlined in these proposals, there were good

prospects for obtaining reforms, which would help to improve the situation in the international meat market, in the context of early relief measures across the broad agriculture front. It was therefore in that Group that New Zealand wished to direct its efforts, in order to achieve these short-term relief measures through the Uruguay Round, and more importantly, to seek the fundamental reforms to agricultural trade to bring the whole sector fully within the ambit of GATT rules and disciplines. Under those circumstances, New Zealand wished to withdraw its proposal. However, this did not reflect any lessening concern with the situation and outlook for international trade in bovine meat, nor a change in New Zealand views about the severe distortive effects on trade of government support policies. Consequently, and according to circumstances, her country reserved the right to re-submit its proposal, or a modified one, to the Council at a later stage.

5. The representative of Argentina said that in spite of the changes in context, the reference to the 1984 Working Group, the long discussions therein and their negligible results, continued to raise questions and doubts about the effective application of the Arrangement and its functioning. Without prejudging the results of the negotiations on agriculture, one should not forget that the Bovine Meat Arrangement existed and that consequently, its rights and obligations were in force. The Argentinian delegation continued to be under the impression that there was a deep difference of interpretation between the signatories of the Arrangement, which meant that either there were clauses of the Arrangement which allowed this to happen, or there were parties to the Arrangement which had not complied with their obligations. Although like all other participants Argentina expected highly effective results in the on-going round of negotiations, one could not exclude the unfortunate possibility of failure. Under such circumstances, the Arrangement Regarding Bovine Meat would be one of the instruments which would remain in force. Consequently, Argentina also reserved its right to return to this issue.

6. Noting the withdrawal of both the New Zealand and Canadian proposals, the representative of the European Community reinforced his previous proposal to revert the discussion of some of their points to the MMAG.

Furthermore, he suggested that three indicators, other than those contained in the proposals, could be added for discussion: (1) variations of real prices in the internal markets, which were responsible for the producers' decisions to rebuild or liquidate their herds; (2) exchange rate fluctuations of national currencies against the United States dollar, which had obvious repercussions in the international markets of all meats and feedstuffs; and (3) the comparison between export availabilities and import requirements, in order to determine if there was a risk of market imbalance in the near future. The Australian and United States representatives fully supported both the Canadian and New Zealand positions, and said that there was no point in discussing such matters in the MMAG, at a moment when the new round of negotiations was taking place. Prospects for discussions in the future would depend on the outcome of such negotiations.

7. The IMC took note of the statements above, and the Chairman, underlining the various references to the Uruguay Round, suggested that participants should reflect on the possible link between the IMC and the NGA, and on ways for the former to contribute to the work of the latter.

Replies to the inventory parts of the questionnaire

8. Participants were reminded of the inventory revision due every three years and the five countries which had still not made the revision by the end of 1937 were invited to do so as soon as possible. Participants were also reminded that they are required to notify changes in their policies and measures as soon as these occur and, in any case, once a year in June. Referring to a number of difficulties, the Uruguayan, Hungarian and Brazilian representatives informed the Council that their authorities were making efforts to submit the requested information in the near future.

Evaluation of the market situation and outlook

9. To assist the discussion under this item, the IMC had the following documents at its disposal: "Situation and Outlook in the International Meat Markets" (IMC/W/62 and Add.1); "The Medium-Term World Supply Outlook

in the Light of Article IV, Paragraph 1(a) of the Arrangement Regarding Bovine Meat" (IMC/W/16/Rev.2); "The Instability of World Beef Markets" (IMC/W/25 and IMC/W/33), the "Summary Tables" (IMC/W/2/Rev.15) and "Country Statistics" (IMC/W/46/Rev.2). The Council was informed by the secretariat that, for money and time-saving reasons, from the June 1988 meeting onwards, only documents never before placed in the meeting room would be available there. Any participant wanting other documents could have them upon simple request to the secretariat.

(i) The Chairman of the MMAG, Mr. José-Ramon Prieto, made the following report to the IMC:

"Addressing briefly the international economic environment, Mr. Chairman, I begin by noting that the lack of optimism that I had expressed after last June's meeting (compared to a few months earlier) seems, alas, to have been confirmed by facts in the second half of 1987. Indeed, an expected 2.25 per cent economic growth in 1987 in the OECD area was lower than earlier expected, and the developing countries' economies may not have risen by more than 3.5 per cent. As far as the volume of world trade is concerned, an increase of 3.5 per cent (the same rate as in 1986) is expected. You will remember the optimism which prevailed at the beginning of 1986 and was recalled in the last GATT report: the fight against inflation was being successful in a number of industrialized and developing countries, nominal interest rates were lowered, exchange rates realigned and oil prices dropped sharply. In the trade area, the perspective of a new round of negotiations was a major cause for optimism. Obviously hopes for strong economic growth did not materialize. Consequently, we found ourselves in 1987 with somewhat worsened inflation rates, not only in a number of industrialized countries but also in most developing ones; unemployment rates remained extremely high, even if they stabilized or declined somewhat in some major industrialized countries; on top of this, the last quarter of the year produced probably the worst stock exchange crises of history. At this stage, Mr. Chairman, it certainly is too early to estimate how far this crisis, along with the subsequent sharp depreciation of the United States dollar, will affect

current growth expectations. However, I would note that certain developed countries are already estimating lower growth rates as a result of the crisis. In other words, it seems to me that, at the end of the day, the relatively low rates of increase that I have just mentioned, may even be revised downwards. When one turns to the short term, that is 1988, and notes that before the beginning of the crisis forecasts were already of some economic deterioration in most countries (higher inflation rates, at best stabilization of employment levels, etc.), one finds good reason to be apprehensive.

Mr. Chairman, even if these considerations were not necessarily all raised in our discussions, I thought it would be interesting to have them present in our minds while I go through my report, as they put some of the "happenings" in the bovine meat sector into perspective.

The fact that the economic picture that I have just painted may seem somewhat grey and full of uncertainty with respect to the near future, did not prevent 1987 from having probably been one of the best years for the bovine meat sector since 1983/84. Indeed, after years of continuing deterioration, international bovine meat prices strengthened noticeably in 1987. This recovery of prices, which as you know, started in autumn 1986, now seems to be levelling off somewhat in some regions or countries (and this could well be a first sign of the impact of the crisis), but a number of participants still believe that there is scope for further price rises, at least through 1988.

However, Mr. Chairman, a clear indication from our meeting is that this price recovery is not due to improved consumption of beef and veal (although of course there are exceptions, the most remarkable being Japan, where consumption of beef was reported to have risen strongly this year) but almost solely to a decline in supply. Indeed, more and more countries have reported that at present they are coming to the end of cattle herd liquidation phases, and are entering new herd rebuilding phases. This is the case for instance in North America (United States and Canada), South America (Argentina, Uruguay) and in Oceania (Australia and New Zealand).

Again as there have to be exceptions, in two of these countries production still increased this year: in Australia, a limited 2 per cent increase in production reflected increased import demand in its two major historical markets, the United States and Japan; and in New Zealand, an abnormal rise of around 20 per cent was largely due to the carry-over of livestock from the previous season caused by the workers' strike at the beginning of 1986. In fact, both countries are projecting production drops for 1988. In Europe, while we heard that production is rising in both Switzerland and Yugoslavia, and that there is potential for growth in Hungary, we also heard that in Poland, output declined somewhat, and a stronger decrease was registered in Finland. As far as the European Community is concerned, it was indicated that in the current year production showed a slight increase by and large as a result of low feedgrain prices. Finally, Mr. Chairman, we heard that the production of beef and veal in the USSR increased by as much as 3-4 per cent this year. The suggested reasons for this strong increase were increased slaughter weights and the desire to benefit from premiums set for better quality and over-fulfilment of plan. However, production may fall in 1988.

Briefly, Mr. Chairman, I would say that world production of beef and veal probably fell in the current year, reflecting production drops in a number of major producers, and will presumably fall even further in 1988.

As I indicated, it appears from our debates, that in 1987 there was no improvement in the consumption of beef and veal. With the major exception of Japan, most industrialized countries seem to be faced at present - and do not seem to expect any changes of this trend in the near future - with declining, or at best stagnating, levels of consumption of bovine meat. Apart from a possible saturation level in the intake of red meat, and health considerations (which indeed were practically not invoked in this meeting), the major reason for this seems to be - the relative lower prices of competing meats. Again we heard from several participants that, boosted by low prices of feedgrains, production of pigmeat and poultry meat rose once more in the current year. What is more, we heard the opinion that, in spite of the fact that grain output may decline next year in a number of

countries, available grain stocks will still allow further increases in the output of those meats. In these conditions, their prices will decrease even more and their "comparative advantage" will strengthen. In practice, this means that in spite of lower availabilities of beef and veal next year, the growth margin of bovine meat prices will be restrained by the over-production of competing meats. However, certain participants suggested that in some areas and countries, beef and veal retail prices were kept abnormally high, and suggested that a price cut there could only stimulate consumption. One participant was of the view that there was no clear evidence that lower prices would boost consumption. In his opinion, a consumption rise in the medium to longer term depends largely on economic activity.

Briefly, although other factors should be taken into account, there seems to exist clear evidence that increased availabilities of competing meats (and especially poultry meat) benefiting from low feedgrain prices, are indeed strongly hampering the consumption of beef and veal, and will continue to do so in the near future.

Turning finally to trade, Mr. Chairman, I am tempted to begin by saying that at least during the first three quarters of 1987, virtually all exporting countries have benefited from the price rise registered in the international bovine meat markets. Indeed, in spite of sometimes important discrepancies due notably to volatile exchange rates, export values seem to have increased in all countries, even in those where traded volumes fell. As regards the current quarter and the perspectives for next year, I would however note different trends, in the so-called "foot-and-mouth disease free-trade area" and in the infected area. As a matter of fact, while export prices seem to be set to continue strengthening firmly in the former, they seem to be slackening somewhat in the latter.

In the "disease free-trade area", import demand continues to rise in the two major importing countries, United States and Japan, but also in Canada and Taiwan, as well as in some other smaller Asian countries. Even if the rise is due to lower production levels in the United States and

Canada, rather than to higher consumption levels, there seems to be scope in all three markets for further price rises next year, which can be nothing but good news for their "historical suppliers", Australia and New Zealand. In the "foot-and-mouth disease area", the situation appears to be more complex and undoubtedly more uncertain. Apart from the European Community and some North African or Middle Eastern markets, such as Algeria, Egypt, Irak, Israel and maybe Iran, not many countries seem to be in a position to buy a relatively expensive product such as bovine meat (even if it is widely admitted that the potential exists) for a wide number of reasons such as low oil prices and/or the heavy debt reimbursement burden. Also, the high and rising again, beef stock levels in the European Community (750,000 tons by the year end) were pointed out by a number of participants as a major source of disquiet for market stability in the area in 1988. One participant even indicated that his country's sales of sheepmeat to some of these markets were again threatened by possible sales of EC intervention beef there. However, efforts by the Community to keep export restitutions at lower levels than in the past, as well as the news of a possible 3-4 per cent production drop next year, were generally welcomed. Furthermore, the Community representative noted that the rise in EC stock levels had not impeded prices and exports of some countries from rising in 1987, and saw no reason why they should do so in 1988. Another piece of good news for this area of trade was the prospect of higher imports of beef and veal by the USSR in 1988, following the possible interruption of the long lasting growth of overall meat production. Nevertheless (and in spite of lower export availabilities in some of the traditional exporting countries to this area) there is, in my view, reason to be apprehensive. If one recalls the economic factors, to which I referred in the beginning of my report, it can be questioned whether indeed in this area the price increase which took place during most of this year will continue next year.

Mr. Chairman, at this stage I will not try to summarize the main points I picked up in my report. I would nevertheless note that my perception of the situation and outlook of the bovine meat market has changed slightly from the one I had before our discussions. Indeed, and

although globally, I still think we will go through a better year in 1988, especially when compared to the last few ones, some red lights are flashing and a close monitoring of the different meat markets is necessary and indispensable. I would like to stress that this change in my perception was only possible thanks to the frank dialogue we all had during our day-and-a-half meeting, and I would consequently like to warmly thank all of those who participated in the debate.

Finally, I would particularly, like to extend my thanks to the observers of ITC, ECE and UNCTAD for their valuable contribution to our discussion."

10. In the discussion following the MMAG report, one participant noted that there were two well-distinguished types of markets in the so-called "foot-and-mouth disease area": one of high-quality beef (the "Hilton beef" and "GATT quota") in which prices remained firm and importers could pay due to the decline of the United States dollar (and which corresponds by and large to the EC market), and the one outside the EC where, with the exception of Israel, there were no countries which could pay the price paid by the EC member countries. Recognizing the external factors which were affecting the bovine meat sector, another participant referred to "the fundamental distortions" within the meat sector itself. She stressed the point that, while the agricultural sector in many important producing countries remained propped up by massive government subsidies, and while trade continued to be restricted by import barriers and distorted by competition from subsidized exports, the fundamental uncertainties, instabilities and imbalances in the bovine meat sector would not disappear. Referring to other countries which restricted or prohibited imports of meat, or which supported their farmers in ways which prevented the clear transmission of market signals, she expressed her concern about the fact that the return to "market balance" in the EC had been delayed. Contrary to earlier estimates, production in the European Community had not fallen in 1987, and one could wonder about the Commission's forecast for an output decline in 1988. Furthermore, EC intervention stocks had risen sharply and could only have a depressing effect on world prices, representing a

potential for further trade disruption, at a time when major export outlets were stagnating, if not contracting. She expressed the view that the only long-term prospects for improvement in the international meat market lay with a fundamental reform of agricultural trade which her country expected would be achieved through the Uruguay Round.

11. Other participants supported this statement and expressed their worries about the strongly increased stocks in the Community and on their depressive effect on international prices. It was also noted that the subsidization of beef exports or internal policies such as those which restrict market access, lead to a range of negative effects: false price signals to producers which result in expanded production with supplies massively outstripping demand; inflated prices to consumers reducing demand, and excess product disposed of on international markets. It was said that the solution lay in reducing the gap between internal administered prices and international prices and in adopting, if necessary, farm income support measures that are production neutral. Simultaneously, stock disposal should be handled in a manner which does not disrupt world markets.

12. One participant claimed that market signals were reaching producers in the region he represented; he also noted that high stock levels in the Community had not prevented market and export prices in most countries participating in the Arrangement from rising. Furthermore, they had not impeded other participants' exports of both bovine meat and sheepmeat from growing. It should be noted, he continued, that the increase in bovine meat stock levels in the EC was due to the production control policies being implemented in the Community, especially the reduction of milk output. Noting that the production potential in the Community was down by 10 per cent, he said that by the end of 1988, the market situation there could do no more than approach the supply/demand balance. Finally, he said that forecasts suggested that overall export availabilities should shrink further than import requirements in 1988, a clear signal for the continuation of export price strengthening. One participant referred to the economic, trade and development difficulties of developing countries. She considered the decline in bovine meat consumption in developing

countries to be one of the most disturbing problems affecting the meat sector and, inter alia, closely related it to the debt problems in those countries. The Hungarian representative indicated that, contrary to what was suggested in Mr. Prieto's report, and because of decreasing profitability in cattle-raising, there were no prospects for production growth in 1988 in his country. Although agreeing with Mr. Prieto's reference to increasing production in her country, the Yugoslavian delegate said that this increase was only slight. The Swedish delegate, who was not able to attend the MMAG meeting, informed the Council about the market situation in his country. This information is reflected in the recently published report "The International Markets for Meat, 1987/88".

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

13. One set of written questions was received by the secretariat in advance of the meeting (IMC/W/63). The questions were submitted by Australia and addressed to the United States, Canada, the European Community and Japan.

14. In response to questions regarding the Free-Trade Agreement (FTA) between the United States and Canada, the United States representative said that the Agreement was in its very early stage and that, at that point, both countries had only agreed in principle that they would exempt each other from their respective meat import laws. He could only add that his authorities did not believe that this Agreement would have any impact on other suppliers, and that it was their intention to maintain as free a market access as possible. In response to an oral question concerning the United States Export Enhancement Program (EEP), he said that legislation used for the basis of the EEP would continue through 1988, but it was too soon to say at what level it would be funded, or how much poultry would actually be exported under the Program. However, he indicated that the EEP did not provide a target, a forecast, or a plan for the use that would be made of the Program. It was available to United States exporters who would

submit export proposals to the Administration. The Canadian representative agreed with the United States statement on the FTA issue and added that trade in beef and pork already takes place in a climate relatively free of tariff and non-tariff barriers and that the FTA should not involve major changes.

15. In reply to questions related to the reform package for beef, the EC delegate said that until the end of 1988, it is the Commission's intention to submit new proposals aiming at a better harmony of support measures. Among others, they should include the suppression of the variable slaughter premium for male animals and heifers. The objectives of the 1986 measures were to ensure a larger control of bovine meat production and can only be fully evaluated at a later date. One could already note the cattle herd decline, especially that of breeding cattle, following heavy slaughter levels in the first half of 1987 which will result, at length, in a production fall. However, the 1986 decisions also had the effect of further reducing the dairy quotas, which resulted, in 1987, in higher intervention stocks of beef. The objectives of milk production control seemed now to have been attained and, under such circumstances, the risk of continuously rising beef stocks was relatively weak. As far as de-stocking was concerned, the EC would pursue its traditional and gradual policy, which had not impeded international prices from rising. In the future, the share of beef from dairy cows will diminish and consequently, the share of beef from nourishing cows will rise. Production from fed cattle can also be expected to rise and indeed, this is already happening to some extent. He concluded by adding that these measures should allow the Community to return to a supply/demand balance by the end of 1988.

16. Answering to questions relating to the demand for beef in his country, the Japanese representative said that his authorities had taken several measures to stabilize beef prices. They announced their intention to enlarge the import quota of beef for the second half of fiscal year 1987 (to 121,000 tons, 46 per cent higher than year earlier, bringing the total quota to 214,000 tons, up by 27 per cent), in the light of higher prices of beef in the first half of the year. The LIPC has been making efforts to stabilize beef prices by increasing the amount of imported beef to be

delivered to the market and efforts were intensified in November and December, because beef demand normally rises towards the end of the year. These measures have resulted in lower wholesale prices since November, and prices are expected to decline further in the near future. In response to the depreciation of the yen, Japan implemented various measures in FY 1987 following the decrease of the selling price of LIPC imported beef in 1986. This price was again decreased in April 1987 by 10 per cent; retail prices at LIPC-designated shops were similarly lowered by 10 per cent in May; the number of LIPC-designated shops was increased by 300 last July, to a total of 3,600 shops.

17. In reply to an oral question, the representative from Brazil informed the Council that meat prices in his country were coming down, both at the wholesale and retail levels. This was due to an increase in supply in the last few months and to the very difficult internal economic situation, which led to a considerable fall in demand.

Date of the next meeting

18. Subject to changes as necessitated by the New Round of Multilateral Trade Negotiations, the IMC decided to hold its next meeting on Thursday 16 and Friday 17 June 1988, preceded by the meeting of the MMAG on Monday 13 and Tuesday 14 June 1988.