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GENERAL AGREEMENT ON TARIFFS AND TRADE

Arrangement Regarding Bovine Meat

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For discussion under agenda item No. 2 of the draft agenda, the following paper has been submitted by New Zealand.

ARRANGEMENT REGARDING BOVINE MEAT: PROPOSAL FOR IMPROVING FUNCTIONING OF THE ARRANGEMENT: NEW ZEALAND DISCUSSION PAPER

Introduction

In recent months the GATT : IMC has faced something of a crisis of credibility, demonstrated most clearly by the failure in March of the Council's Working Party to agree on recommendations dealing with the perceived "imbalance or threat thereof" on the international market for bovine meat. This failure was of great concern to a number of participants and raised some doubts about the effectiveness of the Arrangement. At the Council Meeting in June, proposals were put forward by the delegations of Australia and Canada. Initial discussion on these proposals was held, but both were held over for further discussion at the Council Meeting on 12 December; along with any other proposals which might be advanced. New Zealand remains committed to the Arrangement, and convinced of its value. Along with other participants, however, New Zealand agrees that the Arrangement is in need of strengthening, and the following proposal is therefore submitted for the consideration of participants.

Functioning of the Arrangement

2 At the Special Meeting of the IMC held on 15 May, participants were in general agreement that the Arrangement was functioning adequately as regards the requirement to collect and disseminate information, but several participants, including New Zealand, were of the opinion that other objectives were not being achieved. In particular the provisions of Article IV 2, 3 and 5 are not being fulfilled: it is New Zealand's view that this will continue to be the case until all participants exercise a greater degree of political will, in order to abide fully by the undertakings made at the time of signature of the Arrangement.

3 In addition, fulfillment of the specific provisions mentioned in the preceding paragraph would be facilitated by:

- (a) a clearer definition of the factors contributing to an "imbalance or threat thereof" (Article IV.2);
- (b) clarification, in consequence, of the nature of the solution to be sought (Article IV.3) in order to redress the perceived imbalance;
- (c) agreement on (a) and (b), which would then allow substantive progress towards the dismantling of obstacles to trade outlined in Article IV.5.

Concept of Imbalance

4 Despite some lack of specificity in the existing provisions, there are a number of indicators in the text of the Arrangement which suggest an approach which could be taken to facilitate this improvement.

5 Turning first to the central problem of "imbalance", the concept of a supply/demand imbalance is clear in itself, but it could be helpful to draw a distinction between short-term and structural imbalance. The cyclical nature of bovine meat production has been well-documented, and cited as a major factor contributing to instability in the international meat market. But this phenomenon of itself results in a short-term imbalance, which under non-distorted trading circumstances would be self-correcting. The Arrangement, however, refers to "evidence of a serious imbalance". The elements which have contributed to the acknowledged distortions of the international meat market, have distorted the normal supply/demand relationship in consequence, including the cyclical pattern of production, and have created the structural imbalance in the market perceived by New Zealand and certain other council members. The New Zealand proposal is addressed to this "serious" or structural imbalance, which clearly requires the search for solutions outlined in Article IV.2. New Zealand considers that the functioning of the Arrangement could be improved and its application clarified by adopting an approach containing three basic stages. These are submitted as a basis for possible future elaboration.

Stage One: Indicators of Imbalance

6 For Article IV.2 to apply effectively, evidence of an imbalance must be revealed in the Secretariat's evaluation of the situation and outlook (Article IV.1(a)), which in turn is based upon the information provided by participants in terms of Article III.3. Logically, therefore, the areas of information referred to in III.3 provide an indication of the indicators of a supply/demand imbalance. These are production, consumption, prices, stocks and trade.

7 New Zealand considers that the following indicators could provide the basis of a list of categories which, taken together, would constitute *prima facie* evidence of the existence of a supply/demand imbalance:

- (a) any significant increase in the production of bovine meat by a participant;
- (b) any significant increase in a participant's traditional share (reference period of X years) of the global export market, or of exports to a specific market or zone;

- (c) any measurable trend in the consumption of bovine meat, revealing stagnating or falling levels of total or per capita consumption, or where increases in (total) consumption are less than corresponding growth in population;
- (d) any significant decrease in prices, in real terms, for bovine meat traded on the international market, or in particular markets, especially where such decreases have the effect of preventing traditional efficient producers from receiving a reasonable level of return for their exports;
- (e) any significant accumulation of stocks of bovine meat;
- (f) any imposition of restrictions on imports into a participant's market, which have the effect of increasing obstacles to trade, and add to instability of the international meat market through intensified competition for remaining markets.

Stage Two: Factors Contributing to a Structural Imbalance

8 The above indicators may signal the existence of either a structural or short-term imbalance, but as already stated, the Arrangement is concerned with serious imbalance. The next stage of the process is therefore to examine each of the indicators which have been identified, in order to assess whether the factors which have contributed to their existence suggest the imbalance is a structural one. For example, cyclical changes in herd structure, or production increases as a result of climatic conditions would contribute to a short-term, but self-righting imbalance. New Zealand considers that factors such as the following could be identified as those signalling structural imbalance:

- (a) the implementation of price and income support measures by a participant, where these measures result in a significant increase in the production of bovine meat, unrestricted by responses to market signals;
- (b) payment of direct or indirect export subsidies by a participant, which has resulted in any increase in that participant's share of the global export market, or of exports to a specific market or zone;
- (c) the implementation of price and income support measures by any participant which, by unrestrained stimulation of production, have resulted in the accumulation of stocks of bovine meat by that participant.

Stage Three: The Search for Solutions

9 Having assessed the existence of a structural imbalance in this way, the Council's next task would be to identify possible solutions. The ideal solution, which would allow the Arrangement's primary objective to "promote the expansion, ever greater liberalisation and stability of the international meat and livestock market" to be fulfilled, remains the operation of free and unrestricted trade.

10 The Arrangement also, however, recognises the need to find pragmatic solutions, with the reference to "possible solutions" in Article IV.2. New Zealand proposes the 'secondary' objectives of the Arrangement would provide criteria against which any proposed solutions to a structural imbalance might be measured. The process might work in the following way. The question of what might constitute a 'possible' solution would not be determined in advance. This would allow participants the flexibility to generate particular proposals which might be best applicable in specific circumstances. However, any proposal would be measured against criteria drawn from the objectives of the Arrangement, before becoming a *prima facie* candidate for adoption. New Zealand considers that the following criteria, explicit in Article 1 of the Arrangement, would be appropriate: stability of prices ensuring the maintenance and improvement of export earnings; the expansion of trade on a competitive basis (ie fair trade) taking into account the traditional position of efficient producers and/or greater rationalisation and more efficient distribution of resources in the international meat economy (ie comparative advantage).

Measurement of the Extent of Imbalance

11 Measurement of the extent of an imbalance would assist in the identification of solutions. There would thus be great value in the Council having available to it - to be drawn upon as appropriate - a model of what trade in an unrestricted market might look like. The existence of such a model would have no direct implications for national policies, but would simply provide an indication of what improvements in the international market might follow a progressive dismantling of obstacles to trade. Several methodologies - notably the OECD MTM model, and a quantitative assessment of the effects of market protection on international beef trade made by the FAO : Intergovernmental Group on Meat (Ref. CCP:ME 85/3 January 1985) - already exist, and have given positive results. New Zealand proposes that the MMAG examines these methodologies with a view to establishing a model showing the extent to which the existing market deviates from a state of equilibrium.

12 In order to assist with the establishment of a database, participants could provide detailed information, as is required of them in Article III.3 of the Arrangement, of all domestic policies and trade measures. Since these are undeniably the most important contributing factors to the determining criteria outlined in paragraphs 7 and 8 above, New Zealand also proposes that the information already gathered elsewhere in GATT (eg by the Subsidies Committee) could be collated where it relates to trade in bovine meat, since this would ensure a more complete database.

Conclusion

13 It is clear that the international meat market is a badly distorted one, whatever the reasons. It is therefore important that participants to the Arrangement make a positive effort to prevent any worsening of the situation. The advent of a new GATT Round is propitious, provided it brings agriculture more fully into the GATT system. This would bring consequent benefits to the system of international trade in meat, and the Council should therefore monitor progress closely. A more specific monitoring role, and a gesture of support for the interests of developing countries in particular, might be undertaken in the area of standstill and rollback. A comprehensive notification by participants of all subsidies and import restrictions affecting the bovine meat sector, would be followed by a freeze at existing levels, and a commitment to rollback; this would, moreover, constitute the first positive step to be taken by all participants to the Arrangement towards the fulfilment of the provisions of Article IV.5 for "dismantling of obstacles to world trade in bovine meat".

14 New Zealand believes that the level of commitment implied in the proposals put forward in this paper is vital to the survival of the international arrangement regarding bovine meat. In a market where relatively small changes in national production and demand, especially in large countries, tend to have major repercussions on international prices, it is clear that domestic policies and trade measures have a significant impact and trade-distorting effect. To transfer the burden of structural adjustment from high cost producing countries to low cost, efficient producers is to act in direct contradiction to the stated objectives of this Arrangement.