

GENERAL AGREEMENT ON

RESTRICTED

IMC/24

14 April 1989

TARIFFS AND TRADE

Special Distribution

Arrangement Regarding Bovine Meat

INTERNATIONAL MEAT COUNCIL

NINETEENTH MEETING

Report

Chairman: Mr. José Ramon Prieto

1. The International Meat Council (IMC) held its nineteenth meeting on 16 December 1988. 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/2724.

Examination of the functioning of the Arrangement

2. The main point under this agenda item was the implications of the implementation of the new commodity description and coding system (Harmonized System) (document IMC/W/64, Corr.1 and Corr.2).

3. The secretariat informed the Council that the draft decision to be discussed and eventually approved, was contained in document IMC/W/64/Corr.2, Annex IV, page 2. He indicated that the version presented therein was the result of consultations with the Customs Co-operation Council in Brussels and some of the participants, and made small corrections to the English version of the document. One participant noted that there were¹ some discrepancies between the French and English versions of the document¹ and indicated that it was his country's view that the decision on changes to Article II of the Arrangement should be made under Article V, paragraph 3, i.e. by an IMC decision, rather than under Article VI, paragraph 5, which would imply the need for acceptance by governments. The secretariat noted that there were also some discrepancies in the Spanish version of the document.¹

4. It was agreed that this point remain on the agenda for a final decision at the next regular meeting of the IMC in June 1989.

¹All the necessary corrections appeared in a revision of IMC/W/64 which was published as document IMC/W/64/Rev.1 on 16 March 1989.

Replies to the inventory parts of the questionnaire

5. Participants were reminded of the inventory revision due every three years. The last revision was due in June 1986. Bulgaria (last reply in January 1981) and Brazil (last reply in February 1985) were the only two countries not having revised their inventories accordingly, while Egypt, Guatemala, Nigeria, Paraguay and Belize had never replied to it. Participants were also reminded that they were required to notify changes in their policies and measures as soon as these occur and, in any case, once a year in June. Austria, Hungary and Norway had revised their inventories since the last June meeting. The Chairman recalled that according to Rule 18 of the Rules of Procedure, the next submission of complete revisions of the inventories was due before the next June 1989 meeting, and requested participants to submit those revisions before 15 April 1989.

Evaluation of the market situation and outlook

6. 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/67 and IMC/W/67/Add.1); the "Summary Tables" (IMC/W/2/Rev.17); photocopies of the replies to the statistical questionnaire; "Bovine Meat Statistics" (IMC/W/69), and a number of other statistical tables.

(i) After noting that the evaluation of the market situation and outlook had taken place under two separate items of the MMAG meeting agenda (Item 2(B), "Evaluation of the world meat markets situation and outlook..." and Item 2(C) "Competition from other meats..."), the Chairman of the MMAG, Mr. Peter Balás, accordingly made the following report to the IMC:

"Under Item 2(B)

7. I would like to start by noting that cautioned optimism that I had sensed last June in regard to the situation and outlook in the bovine meat sector seems to have gained some new adepts. Guarding from any excess, Mr. Chairman, I could not avoid mentioning this fact, especially after years of depressed prices and producer returns in most countries participating in the Arrangement Regarding Bovine Meat. Factors at the origin of the current improved situation and outlook (at least for the next 1-3 years) are numerous, and I will try to go from some general factors to more detailed ones, referring here and there to the particular situation in one or another country. Mr. Chairman, the written statements delivered by most participants in the MMAG meeting are now available in this room. Under these conditions, I will not go into details on each country's situation and participants will understand that I will reserve the few comments I have to those aspects and countries which seem to have a major impact on the sector's overall picture.

8. First of all, I would note that the October 1987 stock exchange crisis did not have the negative impact in this year's economic developments that so many experts had foreseen. Economic growth in both industrial and developing countries was stronger this year than in 1987 and unemployment

seems to be stabilizing and even decreasing in a number of countries. Inflation, which in industrial countries shows varying tendencies but generally remains at "manageable" levels, continues however to be a worrying factor in a number of developing countries. This is especially true for some Latin American ones where not seldom, it reaches a 3 digit figure. Forecasts for 1989 suggest a slight slowdown in industrial countries' economic growth, but a strengthening of the developing countries' one. No dramatic changes are expected as far as unemployment and inflation rates are concerned. These developments seem to have had a positive impact on the demand for beef and veal in a number of countries.

9. I believe, Mr. Chairman, that the bovine meat market situation in 1988 and the outlook for 1989 can be summarized in the following: lower beef and veal supplies, increased demand and as a result strengthening prices. Going now through the factors underlying this situation and outlook, I would first note that the reduced beef and veal supplies reflect the approaching end of cattle herd liquidation, or a start of herd rebuilding in some of the major producing countries (such as both the United States and Canada in North America, New Zealand and Australia in Oceania and South Africa) and/or reduced cattle numbers and production in others such as the European Community countries and most other European ones). However, we heard that, in a number of cases, where herd rebuilding had started, or was about to begin, it was delayed during the course of the year for different reasons. We were told for instance that herd rebuilding in North America was delayed as a result of the drought which prevailed there during the first half of the year; that it was delayed in Australia in response to a period of strong export demand and higher prices at the beginning of 1988, and this was also the case in Uruguay. Nevertheless, it does not seem that herd rebuilding in these and some other countries, had stopped, but only, as indicated, delayed. Indeed, there are signs that herd rebuilding is now resuming in most of them. This, added to higher cereals and feedgrain prices, means, Mr. Chairman, that like in 1988, total beef and veal output of participating countries will presumably be down again next year. The group also heard from the observer of the Economic Commission for Europe, that in the Soviet Union cattle numbers were down in 1988 for the second consecutive year, although productivity improvements there allowed for higher average slaughter weights, leading to higher production.

10. Turning now to the demand side, I would be tempted to say that, in the current year, although import demand was strong in a number of countries, this was mostly due to the production drop in those markets (some major importing ones). Indeed, beef and veal consumption trends did not differ much from those registered last year. Consumption was down again in the United States, in South America, in Argentina and Brazil, and in Oceania as well as in most European countries (outside the EC). We heard that the decline in consumption in the United States reflects the production drop and a continuing trend towards the substitution of poultry meat for red meats, while the drop in the Brazilian beef and veal consumption was due to the conjunction of relatively high retail prices (for Brazilian standards) and decreased real wages caused by the inflationary pressures. In Oceania, the consumption drop in Australia is related to lower supplies, strong export demand and higher domestic retail prices, while in New Zealand it is due to taste preferences and lower sheepmeat prices.

11. Consumption rises occurred in Japan, the EC and Canada. The Group was told that the rise in Japan reflected stable beef prices and that, contrary to rumours, there was no evidence that the recent measures to liberalize beef imports had any impact on this evolution so far. In the Community, the beef and veal consumption rise was caused by a strengthening economy. On a per capita basis, the rise was of a relatively modest 0.4 per cent, but a further 1 per cent rise was expected to occur next year. Consumption is also up in Canada apparently as a result of higher disposable incomes and increased production. Mr. Chairman, I remember having said in my report of our last June meeting to the IMC, that "stiff competition from other meats (and especially pigmeat and poultry meat) comes almost as a "leitmotiv" for most countries" among one of the major causes explaining the drop in beef and veal consumption. Well, although it appears from our discussions that this competition continues to exert a major influence, a number of delegates indicated that higher cereals and feedgrain prices may have favoured bovine meat consumption in the last months of 1988 and continue to do so next year. (For instance the consumption rise in Canada, which I just mentioned, seems to be currently also favoured by this evolution of cereals and feedgrain prices). Nevertheless, there are no clear indications that consumption trends in 1989 will differ much from those in 1988 in most countries, and it is probable that, like production, overall beef and veal consumption of participating countries will decline again next year.

12. As you may have noted when I referred to the approaching end of cattle herd liquidation or start of herd rebuilding in some of the major producing countries, I named a significant number of major exporting ones such as: Australia, New Zealand, Argentina, Uruguay, the United States and I indicated that production was down in the European Community. Indeed, Mr. Chairman, among these major exporters, production was up only in New Zealand and Uruguay, to which I add Brazil (where production went up as a result of an increased number of slaughtered animals). In other words, it might have been expected that overall bovine meat exports by countries participating in our Arrangement showed a decline this year. In fact, it was the reverse that happened.

13. Total beef and veal exports, according to the data supplied by participants both in their replies to the questionnaires and in their statements last Wednesday, show a 7 per cent rise in volume. This significant rise was due to the strong import demand in major importing areas and countries especially in North America and Japan, but also in some other Eastern Asian countries (such as Korea and Taiwan) as well as to more important sales to Eastern Europe (e.g. Poland and Yugoslavia) and to the Middle East and apparently also to North Africa. One of the major factors of the overall increase of exports was Brazil which, after two difficult years, is back on the export scene (with 500,000 tonnes sold this year) and thus became the third world beef and veal exporter after the European Community and Australia. This performance was possible partly thanks to increased production, but especially as the result of the consumption drop. Strong import demand on the major markets of Australia (United States and Japan) explain its higher export levels which, in a period of falling production, resulted, as I indicated, in higher domestic retail prices and reduced consumption. In the meantime, New Zealand exports showed little

change in spite of higher production, partly because the shipment of a significant volume of product had been postponed until late 1988/early 1989, following the "VRA" imposed by the United States this year (for the second consecutive year, a measure also affecting Australia).

14. While the Uruguayan exports were higher, reflecting increased production, the rise in Argentinian beef exports seem to have been due to decreased consumption. (The representative of Argentina intends to make a detailed statement at the IMC meeting.) The United States, by far the world's major beef and veal importer, became also a major exporter in recent years and saw sales abroad rise again in 1988 reflecting the increased import demand at its major market: Japan. Finally, Mr. Chairman, let me note that contrary to earlier estimates, the EC remained the biggest world beef and veal exporter (preceding Australia) with a volume of sales higher than last year, in spite of a falling production. This was possible by the de-stocking of part of the Community intervention stocks which, we heard, should be down by some 22 per cent by the end of the year (to 451,000 tonnes) and by a further 61 per cent by the end of 1989. In the meantime, EC imports were up this year and should rise further next year. Beef and veal imports in Japan rose sharply this year again, reflecting higher incomes, increased demand and a sharply strengthened yen. Furthermore, as you know, imports already benefited from the access improvement measures introduced this year by the Government of Japan prior to the termination of the import allocation system which is due to occur on 1 April 1991.

15. Bovine meat trade figures in other participating countries this year show a rise in Polish exports (where estimated live cattle exports went up as well) but also in imports, while in Hungary beef and veal exports rose (although live cattle exports fell) and imports declined. Finland, faced with a shortage of beef partly due to the dairy programmes' impact on beef production, imported beef for the first time in years and, while the beef market situation seems to be relatively balanced in other European Countries, Sweden exports fell markedly again, while imports went up. South African purchases abroad also increased markedly this year and we were told that overall meat imports by the USSR are expected to increase, although this may largely depend on prices offered on the market.

16. Talking about prices, Mr. Chairman, I would like to note that, most participants referred to, may be for the first time in a way or another, prices, (especially in domestic markets). They mostly referred to strengthening prices even if, in some cases, the price rises were again hampered by a declining US dollar as referred, among others, by the European Community representative. All in all, the outlook for 1989-1990 seems to be one of a continuing improvement in beef and veal market conditions supported by strengthening prices.

17. In summary, Mr. Chairman, I would note that these market conditions were influenced this year by some major factors which will certainly still exert a similar influence in the coming year or two. Namely, and among others, drought conditions in some regions and especially in North America: consequent higher cereals, feedgrain prices and to some extent, cereals substitutes' prices; lower EC stock levels; and the Japanese measures to

progressively open its market. However, as the Brazilian representative put it, we should guard ourselves from undue optimism and be aware that the beef and veal market continues to be exposed to too many imponderable variables, such as the recent lack of agreement on agriculture in Montreal. This at least for the moment, does not suggest a significant change in support policies distorting the international beef market.

Under Item 2(C)

18. As you are aware, Mr. Chairman, it was the first time that a discussion under a separate agenda item ("Competition from other meats and effects of cereals and feedgrains production and prices on the competing position of such meats in relation to bovine meat") took place. First of all let me tell you that it was my impression that the exchanges we had were rather interesting and we should encourage the continuation of this exercise in the future. Although the discussion turned more around the developments in competitive meats market situation and outlook and even other competitive sources of protein, rather than on the cereals and feedgrain production and prices, the Group decided to keep the agenda item, as a separate heading for the next June 1989 meeting. I will not try to report the debate in detail such as I did for the beef and veal market developments. So, I will be shorter and try to restrict myself to some general comments.

19. First, it appeared from a number of participants' interventions that the last few years' rise in the competing meats production, and especially that of pigmeat and poultry meat is, partly, due to relatively low cereals, feedgrains and even cereals substitutes' prices. The European Community representative for instance, told the Group that there was clear evidence that the very strong expansion in pigmeat and poultry meat output in recent years was due to the low feed prices. In the case of the pig sector, he referred to the continuing rise of the herd until this year. However, the recovery of feed prices since roughly the beginning of the current year had had an almost immediate impact on the herd, and the pig population was now declining. He added that expected pigmeat production would consequently fall by as much as 500,000 tonnes in 1989 as a result. Should feed costs fall, production could increase rapidly again.

20. Other participants (e.g. United States, Canada) noted that in their countries producer returns were sharply down in the third quarter of 1988, reflecting higher feedcosts. There was agreement that the livestock/feed price ratios give an interesting indication of the profitability level within a sector, and are a sign for producers. Nevertheless, and taking into account the interaction of the different factors affecting the various types of meats' production, this could only be only one of the relevant indicators. Furthermore, it does not seem easy (if feasible) to establish a threshold of profitability through this indicator. The point was made by a number of participants that the approach to the issue of competitive meats could not be restricted to the livestock/feed price ratio. Indeed other aspects such as the length of production cycles of the different types of meats, the various farm structures, the vertical integration of the industry especially of poultry meat but also in some cases of pigmeat, also have to be taken into account.

21. Indeed, Mr. Chairman the discussions at this point became much broader and from the competition of other meats we departed to the competition from other products such as those originated from aquaculture, meat substitutes (such as soya products), fish, etc. Comments were also made as to the quality, health and sanitary aspects, and a number of other aspects. As you can see, this seems to be a question which can be positively developed in further meetings and which raised a number of questions about so called "traditional" consumption patterns. Before concluding, let me just add that although we heard the opinion that cereal and feedgrain prices will continue to rise in the future, there seems to be a majority of participants who think that prices, although still relatively low next year, might rise again afterwards. There were also a number of participants who informed the Group of recent developments in the pigmeat, poultry meat and sheepmeat sectors. I am informed by the secretariat that these statements (as well as those on the bovine meat sector, of course) will be duly reflected in the publication entitled "International Markets for Meat" which, as usual, will be published by the end of January, beginning February. I thank you Mr. Chairman."

22. Agreeing in general with Mr. Balás' report, one participant noted that the negative factors which were still affecting the market in June 1988 had, in his opinion, faded away: the competitive position of other meats had been weakened because of sharply increased feed costs and on the economic front growth had remained strong. The EC intervention stocks were down and they would be largely determined by the EC beef régime changes. However, recalling the intervention of another participant in the MMAG meeting, he added that the gains made in the beef sector would prove illusory unless further action was taken to reduce the high level of output base support provided to beef producers in a number of countries. The failure of the mid-term review of the Uruguay Round negotiations in agriculture was a major cause of concern for his country which was looking forward to seeing effective and lasting solutions for the area in the beginning of 1989.

23. Another participant indicated that his authorities' policy continued to aim at the bovine meat market stabilization. Some positive results of such a policy were now clear: intervention stocks were down and prices were firm in spite of unfavourable climatic conditions such as the drought in the United States. Perspectives for the future were even better: meat trade, which had expanded in 1988, should expand further in 1989 and higher feedgrain prices should check the output expansion of "grain dependent" meat, which would result in higher meat prices. Intervention stocks in the region he represented would continue to fall, while prices should hopefully pursue their progressive rise in order to avoid strong fluctuations of production and prices in both the internal and world markets.

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

24. No written questions were received by the secretariat in advance of the meeting. The representative of Brazil informed the Council that since 1 July 1988, the Brazilian tariff profile had been streamlined and non-tariff restrictions in the financial and administrative areas had been eliminated. Effects of such measures in the meat sector were a zero tariff

for the import of breeding cattle and the establishment of a single 30 per cent tariff on imports of all other types of meat and subproducts. International agreements subscribed with neighbouring countries include a tariff preference margin between 27 and 90 per cent for the import of the various types of meat. On 2 December 1988, the Ministry of Agriculture published a regulation for the control and eradication of foot and mouth disease in the Brazilian territory. The investment for this programme amounts to US\$108 million, to be partly financed by the World Bank. The programme aims, among other objectives, at the eradication of the disease in the next two years in the main producing and exporting regions of the country. Also on 2 December 1988, the Ministry of Agriculture has published regulations setting down severe penalties for the use of, already outlawed, hormonal substances in meat production. Moreover, the production, importation and marketing of such hormonal substances has also been outlawed.

25. One participant indicated that in December 1987 his country had notified the EC hormone ban to the Uruguay Round Surveillance Body as subject to the Punta del Este standstill and rollback commitment. As stated in bilateral talks with the EC, his country remained strongly opposed to the EC hormone ban. His authorities position was that there was no scientific evidence that the use of growth promoting hormones, used with the proper controls, posed any risk to human health. The ban would impair his country's meat exports to the EC and in addition it could undermine the work on health and sanitary measures in the current GATT round. Another participant expressed his country's support for this declaration. Noting that the hormones issue had been discussed extensively between his country and the EC bilaterally over the last several years and multilaterally in various GATT fora, he expressed his serious concern with the negative impact that such action will have on the substantial amount of his country's trade in products covered by the Meat Arrangement. Other participants expressed their worries about the EC decision, in special and in their views, in its lack of scientific basis and trade restricting effects. The EC representative told the Council that the Community had decided, the day before, that the interdiction to import meat from animals treated with growth promoting hormones would enter into force on 1 January 1989. Most EC suppliers had given the Community enough guarantees (although some of them still provisional) allowing meat imports from almost all of them, the two exceptions being Canada (which, as far as breeding cattle was concerned had given guarantees allowing the continuation of these cattle imports) and the United States.

26. The Swedish representative said that a parliamentary working group had been set up to review (analyse and evaluate) the agricultural and food policy decided upon by Parliament in 1985. A policy reform had been considered desirable for a number of reasons including, among others, the notion that food security might be achieved with a smaller agricultural area than had so far been considered necessary; the relative high rates of increase in food prices in Sweden; the fact that a policy based on general price support was not a very effective means to achieve regional policy objectives (nor income objectives); that such a policy provided an incentive to intensify agricultural production thereby counteracting efforts to reduce the use of fertilizers and chemicals for environmental reasons; the negative effects of the support on resource allocation and

growth of the general economy; the international market situation characterized by agricultural surpluses and negative effects on agriculture in developing countries; and finally, efforts within international organizations such as the GATT and the OECD, to reform support policies. The findings of the parliamentary working group will form the basis for possible new guidelines to be introduced in 1990. The Swedish representative indicated that he would come back to the subject in future meetings.

27. Referring to the Free Trade Agreement (FTA) with the United States, the Canadian representative said that the FTA had been passed by the Lower House during the previous Parliament. However, the legislation had died on the box when the election of 21 November 1988 was called (as is the case with all legislation which is on the box when an election is called). It was thus necessary for the new Government to start the legislative process all over again. The Parliament had been recalled by the new Government at the beginning of the week and the Canadian authorities' objective was to have the Free Trade legislation, which would amend a full range of acts including the Meat Import Act, passed by the end of 1988.

Date of the next meeting

28. Subject to changes as necessitated by the New Round of Multilateral Trade Negotiations, the IMC decided to hold its next meeting on Wednesday 14 June, preceded by the meeting of the MMAG on Monday 12 and Tuesday 13 June 1989. Thursday 15 June has been tentatively reserved for a technical visit to meat-producing facilities in France.