

GENERAL AGREEMENT ON

RESTRICTED

IMC/30

18 September 1991

TARIFFS AND TRADE

Arrangement Regarding Bovine Meat

INTERNATIONAL MEAT COUNCIL

Twenty-Fourth Meeting

Report

Chairman: Mr. Jean-Michel Henry

1. The International Meat Council (IMC) held its twenty-fourth meeting on 20-21 June 1991. The IMC adopted the agenda set out in GATT/AIR/3185.

Election of Chairman and Vice-Chairman

2. In accordance with Rule 2 of the Rules of Procedure, the IMC shall elect a Chairman and a Vice-Chairman at its first regular meeting of the year, i.e. normally in June. The election shall take immediate effect. The IMC elected Mr. Jean-Michel Henry (France) as Chairman and elected Mr. Masanori Hayashi (Japan) as Vice-Chairman.

Informal presentation by representatives of the International Meat Secretariat (IMS)

3. The Chairman informed the Council that the presentation and the debate with the IMS representatives would be of an informal nature. For this reason, no record of the meeting was held but, upon request, a transcription of the debate can be obtained from the secretariat.

Replies to the inventory parts of the questionnaire

4. Participants were reminded that according to Rule 16 of the Rules of Procedure they should notify as early as possible, and in any case in June each year, any changes in their domestic policies and measures that are likely to affect international trade in live bovine animals and meat.

5. The Chairman indicated that only four countries had submitted such an information, and encouraged others to do so. During the discussions regarding the examination of national policies linked to trade in bovine meat and live animals, four other participants, the EC, Bulgaria, Romania and South Africa (which supplied additional information to its submission) submitted orally such an information which will be published as IMC/INV/-documents.

6. The Chairman requested the five participating countries which have never submitted any information regarding their policies and trade measures to do so at their earliest convenience.

Evaluation of the market situation and outlook

7. 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/79 and IMC/W/79/Add.1) and the "Summary Tables" (IMC/W/80).

8. The Chairman of the MMAG, Mr. Masanori Hayashi, presented the following oral report on the Group's discussions to the IMC:

"I shall begin my report with a few general remarks on overall economic trends. I have noted that a number of representatives have used the word "recession", and that the secretariat report indicates that world economic growth slowed in 1990. This is due partly to the Gulf crisis, but also to the drop in production in Central and Eastern Europe and the Soviet Union. While a further slowing of world economic growth is expected this year, we have heard that in North America the anticipated return to stronger growth by the end of the year will nevertheless be lower than in previous upswings. Finally, while a stabilization of inflation at levels close to those of last year is expected in industrialized countries in 1991/92 the situation remains worrying in developing countries. As regards unemployment, some increase may be feared, while as we have heard, the adjustment of the Central and Eastern European economies to market policies will lead to a decline in production and higher unemployment at least in the short term.

"Following these general remarks, I shall now turn to the international meat markets and summarize some of the main trends I have noted in our discussions in the Meat Market Analysis Group. In addition, and since I think you are now all familiar with the situation in 1990, and I have observed that most participants have referred to the present and the future situation, I shall try to focus my report on 1991 and, as far as possible, 1992 and beyond. Following the order of the discussions, I shall begin with Oceania. In Australia, bovine meat production should slow in 1991-92, reflecting the sluggish growth of the herd. A return to normal weather conditions should allow a price rise due to the improvement in the quality of the herd. While exports to the United States may decline as a result of falling import prices in that country, the liberalization of the Japanese and Korean markets should allow increased sales to those countries. The Australian representative has identified that liberalization as the factor which should have the greatest influence on the Australian bovine meat industry in the medium term. In New Zealand, production should increase in 1990/91 and 1991/92 as a result of increased slaughtering. The fall that has been observed in consumption may be attributed to higher export prices, which lead to higher retail prices on the domestic market. Exports should increase in 1990/91 and 1991/92. While the United States remains New Zealand's biggest market, Japan and Korea are here again becoming more important among the main export markets. An interesting trend, since it is the opposite of what is occurring in other countries, is the rising share of the dairy herd in meat production, at the expense of the beef herd.

"With regard to Japan, production increased marginally last year, while imports rose significantly. Given that the system of beef import quotas was suppressed on 1 April, the LIPC will no longer intervene in pricing, purchases or sales of imported meat. During the month of April imports soared (+ 17.5 per cent), in particular those of chilled meat, apparently reflecting consumer preference for high-quality fresh products. Consumption seems to have increased considerably, while stocks are expected to fall slightly this year. Despite the rise in April, imports should fall off somewhat at the end of the year.

"In the European Community, in 1991 and 1992, bovine meat production is expected to be at a relatively high level, above that of 1990. This increase is attributable to the cyclical movement of supply. In this connection I noted in particular the remark by the representative of the Community that the share of production accounted for by young male bovine animals currently represents 37 per cent of bovine meat production in the Community, reflecting the considerable development of bullock feedlots. While production is expected to increase, unfortunately only a very small rise in consumption is anticipated, owing to the poor economic climate. The downward trend in bovine-meat market prices should continue. In the circumstances, everything suggests that Community stocks will increase from the current level of over 700,000 tonnes to nearly 900,000 tonnes at the end of the year, despite strong growth of exports, which could exceed one million tonnes in 1991 and also in 1992. Markets of destination are the traditional ones, while sales to the USSR should apparently reach a volume equivalent to that in previous years (130,000 tonnes in 1990).

"In other European countries, production and consumption are expected to increase this year in Norway, Sweden and Finland, and decline in Switzerland. In Yugoslavia, bovine meat production increased last year despite the shortfall in supply of feedstuffs, thanks to the higher supply of calves. A return to more favourable weather conditions this year suggests that production should continue to increase. Exports of live animals and of meat are falling, due partly, we are told, to the greater competitiveness of Central and Eastern European exporters in the Community market.

"The countries of Central and Eastern Europe are of particular interest at the moment. We have received detailed information from the representatives of Bulgaria, Hungary and Romania. Unfortunately, the representative of Poland could not be with us. Among other common features, we note in all these countries a decline in herd size. However, while feedstuff supply problems have been faced to a varying degree from country to country, we learned that last year bovine meat production nevertheless increased in Hungary and Romania, while according to the data available it decline in Poland and Bulgaria. The downward trend in herd size in these countries has been continuing for some years, and the representative of Romania told us that the situation is particularly worrying in his country, since a very sharp drop in the number of cows, pigs and sheep last year could seriously jeopardize reproduction and meat production in years to come. On the trade side, trends are more varied. Thus, in 1990 Hungary's bovine meat exports increased, while

exports and imports of live animals and imports of bovine meat plunged. In Bulgaria, while imports also declined, this was possible only because exports also dropped sharply, while in Romania exports of live animals and meat were banned owing to the supply shortages in the domestic market. Some of these participants, as well as others, expressed their serious concern at the impact on their exports of the growing sales on preferential terms to the Soviet Union by a number of countries, in particular the European Community and the United States. The transition towards a market economy in most Central and Eastern European countries has led to a rise in prices in the short run, which apparently had an adverse effect on consumption.

"Total meat production fell last year in the Soviet Union owing to a decline in herds and a drop in supplies of feedstuffs of mediocre quality. Imports soared to over one million tonnes. The first indications for 1991 suggest that this trend will continue this year, but the decline in production should not prevent a more balanced market situation, since rocketing consumer prices should discourage demand. This would also lead to a drop in imports. In the short term no radical change in the bovine meat sector in these countries may be expected, but in the medium term they will probably become major suppliers of bovine meat.

"In South Africa, the herd is continuing to increase but should be reaching a peak: there are signs that herd re-stocking is nearing an end. Production should increase slightly this year, and imports are declining as the market approaches self-sufficiency in bovine meat. A word on Tunisia: although it was not represented, it submitted a reply to the questionnaire which indicates a herd that is growing this year, and production that should increase in 1991 and 1992, while consumption and imports remain flat.

"Turning now to Argentina, as everyone knows bovine meat is of particular importance in that country. According to data provided by the Argentine representative, we have noted that production has been increasing since 1989 but could decline next year. Consumption has been falling for some years; it should stabilize this year and pick up in 1992, while exports should decline slightly this year and stabilize next year. The Argentine representative, supported by other participants, expressed serious concern at the sale of large quantities of subsidized Community meat, in particular to Brazil.

"In Uruguay the herd has declined sharply over the last few years (and particularly in 1990, owing to the drought), a trend which should end next year. Meanwhile, production is declining and consumption has remained flat, while exports, which were stable at a high level last year should drop significantly in 1991 and 1992. As in Argentina, export prices have been rising.

"With regard to the North American market, I would like to point out a trend that seems particularly interesting to me: although there has been talk of an economic recession, it has also been observed that so far this does not seem to have affected demand for bovine meat. We have also been

informed that feed-grain prices should again fall in 1991 and 1992. In the United States, herd re-stocking is underway, but at a slower pace than in the past, and this trend should continue in the coming years. Nevertheless, production and exports should both increase this year. Imports are expected to decline, owing to weaker supply from Australia. Nevertheless, import of live animals should remain high, at over 2 million head, while the prices should remain firm. According to the United States representative, the fall in beef consumption is essentially attributable to the price differential between beef and poultry meat, which is of the order of three to one. The United States is considering granting short-term trade credits (for one and a half or two years) to the Soviet Union for sales of poultry meat, but not food aid or sales on preferential terms. In neighbouring Canada, the market trend appears to be similar to that of the United States, and favourable grazing conditions, firm prices for fattening cattle and falling interest rates should encourage investment and growth of the slaughter herd.

"Please forgive me for not giving detailed comments on other meat. I will nevertheless point out that production of pig meat and poultry meat should increase this year once again, certainly encouraged by the decline in feed-grain prices, and this will do nothing to help the competitive position of bovine meat. This increase in production should lead to a rise in world exports. Production and exports of sheep meat should increase to a lesser extent.

"To conclude, I would say that we may expect a modest increase in world bovine meat production in 1991, with a possible slight acceleration in 1992. Areas of uncertainty persist, such as developments in the Soviet Union and Central and Eastern Europe, South America (particularly Brazil) and the European Community, which seems to be having difficulty in establishing supply and demand stability. However, uncertainty also reigns on the demand side, where the economic climate does not help matters, even if, in North America for example, it has not greatly influenced demand for bovine meat.

"I shall end on the remark made by the OECD observer, borne out by our discussions on this subject: drawing the attention of participants to the steady decline in beef consumption, he noted that if we are to avoid a disastrous market situation in the medium term, bovine meat production must rapidly be brought into line with the real level of demand."

9. Commenting on the MMAG's Chairman report, the New Zealand representative stressed that, as she had indicated in the MMAG meeting, among the major uncertainties and potential destabilisation factors of the world bovine meat markets, was the very high level of the EC stocks and the likelihood that those stocks would continue to grow until the end of the year. Furthermore, although she acknowledged that cyclical factors were one of the factors affecting the Community levels of production, her delegation considered that high levels of support and protection provided to the EC beef industry were among other major factors. There had also been in the past cross effects from changes in the dairy sector in the beef sector, and further effects could be expected in the future. Her

authorities preferred governments to take structural adjustment measures to assure that the agricultural sector operated in response to market signals. However, if they didn't and production was sustained by subsidies and price supports, which prevented market signals to be passed through to producers, it was their rôle to take effective measures to prevent overproduction without exporting surpluses to the world market. Her authorities continued to hope to see some evidence of political will within the Community to undertake substantial reforms that were surely needed in this sector.

10. The Hungarian representative said that his authorities concerns regarding the delivery of agricultural products under concessional terms or under special credit lines to the USSR market, related to the effects that such deliveries had on traditional Hungarian exports of various kinds of meat. Such effects were increasingly felt in the Hungarian agricultural sector. His authorities had frequently appealed that such sales be made in such a way as not to aggravate the very substantial problems of Central and Eastern European countries, such as Hungary. He welcomed a recent statement by Mr. Andriessen of the EC Commission, in which he emphasized that aid to the USSR must not be provided in such a way which would cause a breakdown of traditional trade relations within the region, and hoped that such good intentions would materialize.

11. The European Community representative said that the written statement of the EC representative to the MMAG meeting stated out clearly which type of structural adjustment had taken place in the Community in the course of the last decade. The average decline of 2.4 per cent per year of the number of cattle breeders in the EC was an example of structural adjustment. Market forces in the EC were also reflected in the market price. His written statement also clearly illustrated the price declines in the Community. It could not be claimed that prices did not reflect the market realities when prices showed downward trends of about 10 per cent in one year or 15 per cent over two years (in opposition to many other countries where there was an upsurge in prices). Indeed, domestic prices had fallen to such a low level that, contrary to the indication in the MMAG's Chairman report, they now should stabilise reflecting a better supply/demand balance. He added that prices in the Community were lower than in the United States and that the EC production levels were now lower than in the comparable cyclical period, six years ago. In his view, the problems with which the Community was faced were by and large related to the low level of demand.

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

12. One written question was received by the secretariat in advance of the meeting (IMC/W/81). The question was submitted by New Zealand to the European Community.

13. In introducing its question, the New Zealand representative underlined the inadequacy and ineffectiveness of the controls in place in the EC so far. Price depressing effects and distortions on the international beef markets continued, and problems were looming in the sheepmeat sector with

the continuing increase in EC flock numbers. New Zealand problems were double edge because of the linkage between the beef and sheepmeat markets. Subsidized EC beef sales at low prices to reduce its stock pile had a direct negative impact on her country's trade on sheepmeat and more generally in her country's economy, where export earnings from agriculture represented 60 per cent of total earnings.

14. Referring to similar concerns expressed by South American and Central and Eastern European countries, her delegation thought it was irresponsible for the Community to avoid finding solutions to its problems by allowing stocks to build up and subsequently dispose them on the world market. The lack of action to take corrective policies was a denial on the direct and negative effects on economies elsewhere in the world which relied, for their well being, on the availability of market outlets at remunerative prices. The New Zealand question was directed in finding out where EC exports were going, how the Community would be able to avoid substantial disruption to international meat markets, and when lasting and effective measures would be in place to prevent stocks from rebuilding again.

15. As regards sheepmeat, she referred to the concerns which had been expressed in the December 1990 meeting concerning the ineffectiveness of the stabiliser mechanism introduced in 1988. New Zealand's understanding was that the principal aim of this mechanism was to limit the level of expenditure committed to the sheepmeat sector, by stabilizing the size of the Community flock. The measure provided for a reduction in the level of support payed to producers for every one per cent by which the sheep flock threshold, fixed in 1988, would be exceeded. However, the cuts in support were expressed in ECUS and they had thus been diluted when expressed in national currency terms, because of the offsetting green exchange rate adjustments. As a result, the stabiliser mechanism had been gradually weakened and sheep flock numbers had continued to expand in most EC member states, particularly in the United Kingdom and Ireland.

16. In reply to the first part of the question regarding the ineffectiveness of the beef stabiliser scheme to control production levels, the European Community representative indicated that given cyclical developments, the production level was presently lower than the one recorded in 1986. This meant that the Community had been able to stabilise the production of beef. Turning to the beef stock levels, he emphasized that they were partly the result of the cyclical upswing of production and partly due to adverse factors outside the purview of the bovine meat market, as largely explained in the December 1990 meeting and again in the MMAG meeting. He acknowledged the OECD five year forecasts, but indicated that since the integration of the new German states, the picture for the EC domestic market had changed. The effort had nevertheless been done to supply data for 1991 and 1992. He hoped to be in a position to supply data going up to 1995 for the next December meeting, but expected other participants to do the same and indeed suggested that a medium term estimate exercise for all participants take place by then.

17. Referring to the 500 million ECUS credit guarantee program to the USSR, he said that it related to the supply difficulties in that country

and that, although he had no information regarding quantities, it concerned a number of food products including cereals and possibly also beef.

18. As far as sheepmeat production was concerned, there had indeed been an upward trend of the order of 100 thousand tons, but part of the rise was due to the decapitalisation of the existing flock. Although the OECD forecast was for the EC flock to increase until 1995, the last October census had already shown a downward trend in certain categories. This evolution was not surprising, continued the EC representative, because prices had dropped by 18 per cent. In future years, the general trend would be a slight decrease in the Community sheep flock.

19. In reply to another question, the EC representative said that from the 100 thousand tons of intervention beef which had been put for sale to Brazil last spring, a first offer involving 20 thousand tons, had been accepted in the week preceding the meeting. On 20 June 1991, two new offers of another 20 thousand tons each had been accepted. Accordingly, total exports to Brazil under such sale amounted, so far this year, to 60 thousand tons.

20. The New Zealand representative stressed that she disagreed with certain factors identified by the Community representative. Furthermore, and although she could understand that the new German states had an effect on statistics, she did not think that the general trend would have been altered so significantly as to render any prediction impossible. She also hoped that the trend revealed by the October 1990 EC sheep flock census would continue.

21. The Argentinian representative referred to the very serious prejudice that the EC sale to Brazil and the accumulation of EC stocks represented for his own and other countries. In order to be able to compete with South American suppliers, the EC sale to Brazil had to be highly subsidized. It also constituted a threat to serious disruption of the ongoing integration procedure between Argentina, Uruguay, Brazil and Paraguay, in the framework of the MERCOSUR. Referring to Article XVI of the GATT, and the precisions brought about by the Subsidies Code to the term "equitable share of world export trade" and regional markets involved, he informed the Council that his country had suffered injury by such sale and had therefore asked for compensation. He thought that the countries affected by the sale should make an energetic complaint and vigorously ask for consultations and possibly even a special panel on the issue. In any case, Argentina expressed the wish to follow up with this question in the next meeting of the IMC.

22. The Paraguayan representative indicated that the EC sale to Brazil also caused a serious prejudice to his country's livestock producers. In 1990, Paraguayan sales to Brazil had reached 100 thousand tons and this year they had reached only 6 thousand tons so far. This clearly illustrated the prejudice that the EC sale, announced in the beginning of the year, had caused to his country. He informed the Council that he would submit statistical data to the Secretariat in the near future.

23. The Uruguayan representative expressed worries similar to those of Argentina and Paraguay in relation to the EC beef sale to Brazil adding that, as result of this sale, the expectations that his authorities had for this year in terms of export volumes and prices, would have to be revised downwards.

24. The Brazilian representative reserved its right to revert to the subject at the next meeting and indicated that her delegation would suggest to its Government to maintain direct contact with the countries involved, as it had already done in operations related to other products such as wheat and cement.

25. The South African representative informed the Council that due to a number of problems encountered in controlling the importation of meat and meat products into the Southern African market, the traditional quantitative import control system had been abolished in his country and replaced by a system of tariff protection. In terms of the new system, the local meat industry was now protected by differentiated tariffs only. The import control, applied in terms of the import and export act, would remain in force for a minimum of six months after the imposition of tariff protection.

Examination of the functioning of the Arrangement

26. The Chairman noted that since the beginning of the Uruguay Round Negotiations, and in particular during the last year, no substantive discussion had taken place under this agenda item. The functioning of the Arrangement no doubt would call for not only a substantive discussion concerning form, but also wording. However, and without prejudging the results of the Uruguay Round, this type of examination should take place after one knows what those results are, or at whatever moment it will be felt necessary by participants including, if necessary, by calling a special meeting of the Council.

Other business

27. A number of delegations reverted again to the question of the EC sale to Brazil under this item. In order to simplify the report, those comments were included under the agenda item relating to national policies. Indeed, the Chairman suggested that this type of discussions should be held under the agenda item relating to the market situation and outlook or the one referring to examination of national policies, rather than under other business. Furthermore, and in order to facilitate the debate, he proposed that the procedure of written questions be followed more frequently when participants wanted to raise questions of a similar nature.

Date of the next meeting

28. The IMC decided to hold its next meeting on Friday 13 December 1991, preceded by the meeting of the MMAG on Wednesday 11 and Thursday 12 December 1991, subject to changes as necessitated by the Uruguay Round.