

**GENERAL AGREEMENT ON
TARIFFS AND TRADE**

RESTRICTED

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Special Distribution

Arrangement Regarding Bovine Meat

INTERNATIONAL MEAT COUNCIL

Twenty-Sixth Meeting

Report

Chairman: Mr. Jean Michel Henry

1. The International Meat Council (IMC) held its twenty-sixth meeting on 19 June 1992. The IMC adopted the agenda set out in GATT/AIR/3321.

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 re-elected Mr. Jean-Michel Henry (France) as Chairman and re-elected Mr. Masanori Hayashi (Japan) as Vice-Chairman.

Replies to the inventory parts of the questionnaire

3. Participants were reminded that according to Rule 18 of the Rules of Procedure a complete revision of the inventory of all measures affecting trade in bovine meat and live animals, including commitments resulting from bilateral, plurilateral and multilateral negotiations, was due every three years. This revision was consequently due in June 1992. The Chairman indicated that, despite the different airgrams and individual fax sent to participants by the secretariat reminding them of the necessity to submit the revision, only eight countries had revised their inventories.

4. Noting the serious prejudice that such a meagre result had in the good functioning of the Arrangement and in a thorough discussion of trade policies, he encouraged those who had not yet submitted revisions to do so at their earliest convenience. He said that the activities of the Arrangement could usefully contribute to the success of the Uruguay Round and should consequently not be neglected. He added that the secretariat and himself had the intention to undertake some initiatives in order to try to find a solution for what was an unsatisfactory and deteriorating situation.

5. The representative of the European Community informed the IMC of policy changes agreed to in the EC. He indicated that for the 1992/93 season, official prices had been frozen at the same level than the preceding season, meaning a 5 per cent fall in real terms. The level of the beef special premium and the suckler cow premium had also been unchanged. Referring to the CAP reform, he said that the reform was partly

an answer to the request of the EC trade partners. In the cereals sector, the official price reduction was close to 30 per cent while in the bovine meat sector it was of 15 per cent. For the 1993 marketing year, the basic price for sheepmeat was reduced by 7 per cent.

6. The objective of the reform in general, and in the livestock sector in particular, was the best possible control of production which should also become more competitive as the result of lower official prices. Furthermore, the reform also aimed at the promotion of high quality beef consumption, corresponding better to today's consumer demand. To compensate farmers from such policy changes, it was decided to introduce direct payments to producers, decoupled from production levels, as from 1 January 1993.

7. In order to discourage an exaggerate intensification of the bovine meat and sheepmeat sectors, direct payments (premiums) will be limited, at the farm level, by the stocking density in livestock units (LU) per hectare (3.5 LU per hectare in 1993 to 2 LU in 1996). Another limitation, operated at the Community territory level, is the establishment of a ceiling limiting of the number of animals eligible for premium, to the levels reached in one of the reference years, 1990, 1991 or 1992. In the sheepmeat sector, the ceiling is established individually at the producer level and corresponds to the number of sheep which benefited from the premium in the 1991 marketing year.

8. Turning to the operation of the intervention system, he indicated that decreasing ceilings will be introduced to normal intervention purchases which, in 1997, will be limited to 350 thousand tons. Intervention purchases under the safety net will apply in a member State where the market price falls below 60 per cent of the intervention price (against presently 72 per cent). Noting that the intervention price will be decreased by 15 per cent, he concluded that as a result of both reductions in three years, purchase prices under the safety net scheme, will be close to 30 per cent lower than at present. Taking into account the average annual inflation of 5 per cent per year in the EC, this meant in real terms, at the end of the three year period of the reform, a 45 per cent drop of purchase prices under the safety net scheme. Further transitional measures to limit production include the reduction calf numbers through the payment of premiums to withdraw them very young from production or by an intervention on light carcasses (150-200 kgs.).

9. A complementary "extensification premium" to less-favoured areas, amounting to 30 Ecu's per head, may be granted when the stocking density is lower than 1.4 LU per hectare. The beef special premium will be increased from 60 Ecu's in 1993 to 90 Ecu's in 1995. The suckler cow premium will be raised from 70 Ecu's in 1993 to 120 Ecu's in 1995. The right of the premium will be limited to those who, in the past, and during a reference historical period, benefited from the premium. The less-favoured areas may benefit from a national complement of income, partly financed by the EC Commun Fund. The EC representative indicated that, when available and as soon as possible, he would submit in full detail to participants, the

measures outlined above, in the framework of the reply to the inventory parts of the questionnaire.

10. The Australian representative expressed his delegation's doubt that the new EC measures would address the fundamental overproduction problem in the Community beef sector. While there were still some details to be filled in on how aspects of the measures would operate, there remained important question marks over whether the reforms would result in lower levels of production-stimulating support. These concerns extended, inter alia, to the new premium payment system and the extent to which it represented decoupled support, and to the operation of the intervention system and its interaction with the safety net scheme. He was not convinced that the reforms would have positive implications for production and stock levels or for the availability of surplus product on the international market sold at subsidized prices. He reserved his delegation's right to return to the subject in due course. The Argentinian representative welcomed the CAP reform, but indicated that he shared concerns similar to those expressed by the Australian delegate and would look forward to being informed about the details of the reform. The Uruguayan representative formulated similar concerns.

11. Referring to the Australian and Argentinian concerns, the EC representative indicated that the Community beef production was at present declining by 8-10 per cent, while stocks were 10 per cent lower since the beginning of the year. Furthermore, stocks were related to a production level which largely reflected the cattle-raising restructuring in the new German Federal States. In the future, lower support prices might well result in more competitive exports, maybe without subsidies and even more so if large profitable markets become accessible to the Community product. Answering a question regarding the end of vaccination against Foot-and-Mouth disease (FMD), he indicated that the EC could not be blamed for wanting to join those countries operating in the FMD free area, the objective of the new policy being precisely a greater liberalization of trade.

12. On his closing remarks regarding the discussions under this item, the Chairman once more encouraged participants to submit their replies to the inventory parts of the questionnaire before the December 1992 meeting, reminding them that such information is not only fundamental for the good functioning of the Arrangement, but also used for the January annual publication "The International Markets for Meat".

Evaluation of the market situation and outlook

13. 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/85 and IMC/W/85/Add.1) and the "Summary Tables" (IMC/W/86).

14. The Chairman of the MMAG, Mr. Masanori Hayashi, presented the following oral report of the discussions of the Group to the IMC:

"1. Before going into greater detail in my report on the discussions, I should like to make two general remarks. The first concerns the importance for our discussions of the medium-term forecast exercise; as you know, such forecasts were included in the agenda of the group for the first time since the entry into force of the Arrangement. While replies to the questionnaire circulated by the secretariat were not very encouraging (only seven participating countries and one observer replied), the forecasts of those who did reply have given an idea of what the international meat market situation may be like in the coming years in the FMD-free area. The lack of data on the FMD area has prevented us from having as clear an idea as might be possible of the medium-term situation in that area, but it has nevertheless been the "engine" of a good part of our discussions and in any event has left open a number of possible avenues which it would be interesting to explore in future meetings. I should like once again to request, through you, Mr. Chairman those who have not yet replied to the questionnaire on medium-term forecasts kindly to do so for next December's meeting, although I respect their difficulties. This item will remain on the agenda of the meeting.

2. My second general remark concerns the debate on meat consumption trends, and in particular those of bovine meat. I shall return to this point later, but at this stage my remark concerns more particularly the way in which our discussions take place. It seems to me that in future we could include in the agenda a specific technical item to discuss any particular development in the market. This would enable us to structure the debates better, with the understanding that items would be decided on in advance so that participants could be well prepared. I am sure that there will be no lack of subjects, and as I mentioned our discussions over the last two days have provided several topics. I am not making a proposal to the Council here, but just a suggestion designed to smooth our discussions.

3. Returning now to the Group's meeting, I should like to point out that the world economy is currently in a period of shaky, slow and difficult recovery against a background of thoroughgoing economic reforms in several parts of the world, leading to the establishment of a market economy. These developments inevitably have an effect on the meat industry, as they affect both supply and demand, and hence international trade. Accordingly, in the course of our meeting we heard a number of delegates refer to low economic growth rates and the uncertainties arising out of this situation as one of the reasons for the weakness of demand in general and demand for bovine meat in particular. In addition, developments in the meat sector in Central and Eastern European countries (and in the Republics of the Community of Independent States, according to the secretariat documents) are strongly marked by the changes in economic and political direction that have taken place in that region, and this is very clearly illustrated by the severe run-down of herds and the collapse of domestic demand for meat (in particular bovine meat). Furthermore, we have also heard how, for example in Argentina, the new economic deregulation policy has encouraged domestic demand for meat, thus affecting (at least momentarily) the export capacity of this major traditional exporter.

4. Turning now to the countries of the FMD-free area, I would note that in both North America and Oceania there is a slow replenishment of the bovine herd leading, except in Australia, to an increase in production as a result of higher slaughtering as well as higher average carcass weight. The rise in bovine meat production in the United States, together with an abundant supply of other meat, is undermining cattle prices which in turn affects the export prices of its main suppliers, primarily Australia and New Zealand. It is estimated that cattle prices in the United States will continue to decline slowly in the coming years. The state of this market is currently such that it would appear that we are heading once again, like last year, towards the imposition of "voluntary" export restraint agreements by the United States on its two suppliers in Oceania.

5. At the same time, we are continuing to see the emergence of the United States as one of the main world exporters of bovine meat. Its exports should once again increase this year, and will go primarily to Mexico, Japan and the Republic of Korea. As it happens, the latter two countries are also the main export markets of Australia and New Zealand, after the United States, and we may therefore expect greater competition among the three countries on those markets. In addition, this competition will spread to other Asian markets, currently seen as the most buoyant in the world.

6. As far as Japan is concerned, herd re-stocking has not prevented a rise in production in fiscal year 1991/92, while here too the economic slowdown seems to have an adverse effect on demand for bovine meat. Nevertheless, the absorption of stocks built up in 1991 has now been completed, and imports improved last April, reaching a record level (which also reflects the lowering of customs duties in that month). Wholesale prices for meat, including "Wagyu", are now falling, mirroring the unfavorable economic environment.

7. As far as countries operating in the area where FMD remains endemic are concerned, it is clear that the situation in the European Community deserves special attention. The "news" which has reached us is, I would say, relatively encouraging. After the sharp rise in stocks and exports in 1991, we are now informed of a sharp decline in bovine meat production in 1992 and 1993. The effect of this will be, on the Community market, an increase in prices and an expected decline in stocks and, on the world market, a significant decline in Community exports over these two years. The Community is currently experiencing an upturn in animal feed prices and hopes to contribute to some stabilization of cereal-based meat prices, in particular pigmeat and poultry, which would improve the competitiveness of bovine meat. However, on the demand side only a slight upturn in consumption for this type of meat is expected.

8. Yesterday we had quite a long discussion on the reform of the CAP, a discussion which you will agree was virtually inevitable even if it ought really to take place here in the Council. The representative of the European Community presented a brief report on this reform. The reform of the cereals sector, including in particular a 29-per-cent reduction in target prices, should act as a stimulant for production of cereal-based

meat (pigmeat and poultry in particular), whence the need for supplementary measures (premiums) in the bovine sector. The rise in pigmeat and poultry meat production is expected to result in lower meat prices in general which, it is hoped, will encourage consumption. Lower official prices for bovine meat result in lower support levels and should lead to an adjustment of the sector in years to come. In particular, the representative of the European Community stressed that the most important aspect of this reform was that it introduced measures not linked to production levels.

9. Trying to remain objective, I must say that a certain number of participants appeared to have doubts as to the possible effects of these reorientations of the CAP on support levels, production, export surpluses, stock levels, etc. Perhaps we should pursue this discussion here.

10. In South America, we have learned that herd restocking appears to be underway in Argentina, and especially that domestic prices have risen considerably. Nevertheless, greater purchasing power and economic stability resulting from the new government policy are bearing fruit and domestic demand for bovine meat remains strong, and should rise in 1992 and 1993. Herd rebuilding and the level of domestic prices led Argentina to import increasing amounts of meat and livestock from neighbouring countries so as to be able to keep up a significant level of exports. Uruguay, also in the midst of a herd restocking period, and Brazil, which has returned to the international market after having solved the sanitary problems that penalised its exports in 1990/1991, appeared to be benefiting from the situation in Argentina and exporting larger quantities this year.

11. As I said earlier, in the countries of Central and Eastern Europe today there is a severe running down of herds and a collapse of domestic demand. The situation is extremely difficult in Romania, where over two years the herd size has diminished by two million animals and export quotas have been introduced to avoid shortage on the domestic market. In Poland, the decline in the bovine herd is affecting both the public sector and the private sector which has been seriously injured by the sector's lack of profitability. Galloping inflation in Poland has caused prices to soar, which has seriously affected demand. In addition, the increased number of traders makes trade statistics unreliable for the time being. In Bulgaria, similar causes, linked to the economic reform, are producing similar results, and in 1991 bovine meat production was almost half the 1990 level.

12. Before concluding, I should like to make a few remarks concerning the Group's discussions on meat consumption and the medium-term forecasts. With regard to consumption I found the debates very interesting. While it appears that a certain stagnation or even regression in bovine meat consumption appears to be setting in in many industrialized countries, many participants seem to feel that health considerations concerning bovine meat consumption have recently become relatively less important than two or three years ago, and that the factors with the greatest impact on consumption today are the economic environment (generally unfavorable at the moment, while higher demand in the Asian countries has been mentioned as an example of the influence of economic growth on increased bovine meat consumption) and relative prices of different types of meat. This does not

mean that health concerns have vanished, but as one participant pointed out, there is a great deal of disaffirmation on health issues, and in the final analysis for some time now price has been the main factor encouraging or discouraging consumption. I think this topic is worth pursuing in our future discussions.

13. With regard to the medium-term forecasts, I think that one can say, analysing the secretariat tables, that in the FMD-free region we are heading for a period of over-production around 1996/1997, with export forecasts rising sharply in the United States and also Oceania. If I have understood rightly, it is hoped that demand will increase significantly in the Asian countries, and in the longer term perhaps with the entry of China into the international market as a major importer. Meanwhile, strong pressure on international prices in these areas may well be felt.

14. In the FMD region the forecasts are lacking. While in the Community the future impact of the CAP reform is hard to foresee, factors with differing effects prevent us from having a clear picture. It is considered in the Community that the negative image of bovine meat may slow demand, while widening the Community may have a positive impact. Furthermore, in the EEC today there appears to be a "decoupling" of bovine meat consumption from the economic growth trend. The situation in Central and Eastern Europe makes any forecast risky, while the forecasts for Latin America are lacking for the time being. Be that as it may, as I said at the beginning of my statement, I hope that this exercise will be pursued at our December meeting, and I know that the secretariat will do what is necessary to remind participants kindly to submit forecasts. In conclusion, I should like to thank all participants for a meeting that I consider as one of the best under my chairmanship."

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

15. There was no discussion under this item. For the discussion regarding the reform of the Common Agricultural Policy, see paragraphs 5 to 11 above.

Examination of the functioning of the Arrangement

16. The Chairman noted that, as in the December 1991 meeting, the non-conclusion of the Uruguay Round did not, in his view, allow for a substantive discussion regarding the functioning of the Arrangement. However, the Chairman indicated that he and the secretariat believed that some of the Rules of Procedure might be improved. The discussions had shown that problems related to the replies to the statistical (including medium-term forecast when possible) and inventory parts of the questionnaire deserved some thought. The Chairman and the secretariat would consequently look into such issues, but would, of course, not introduce any changes without the agreement of the participants. Other subjects deserving thought by the IMC were those related to trading standards, sanitary issues, and also all the technical problems informally discussed in June 1991 with the International Meat Secretariat.

Other business

17. The secretary made an oral report on the 60th General Session of the International Organization of Epizootics (OIE). He noted that, following the GATT sanitary/phytosanitary negotiations, the OIE was introducing (quantitative) risk analysis and risk management in its working methods and that during the session two new chapters of the OIE Code, related with the bovine meat sector, had been adopted. One regarded Bovine Spongiform Encephalopathy (BSE) and another regarded the new guidelines on Foot-and-Mouth disease (FMD), of which copies have been distributed to the IMC participants. The secretary noted that, although they had not opposed a consensus in the OIE session, the representatives of some developing countries had indicated the serious difficulties they had with the risk analysis approach (which they thought too costly for them). They were also concerned with the notion of countries free of FMD with vaccination, introduced in the new guidelines, which they felt could discriminate against trade from their countries.

Date of the next meeting

18. The IMC decided to hold its next meeting on Friday 18 December 1992, preceded by the meeting of the MMAG on Wednesday, 16 December, and Thursday, 17 December 1992.