

# GENERAL AGREEMENT ON

# TARIFFS AND TRADE

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RESTRICTED

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## Arrangement Regarding Bovine Meat

### INTERNATIONAL MEAT COUNCIL

#### Twenty-Fifth Meeting

#### Report

Chairman: Mr. Jean-Michel Henry

1. The International Meat Council (IMC) held its twenty-fifth meeting on

5. The representative of the European Community informed the Council that measures to reform the Common Agricultural Policy (CAP) were being studied and analysed and that some of those measures concerned the bovine meat sector. Regarding the triangular sales of bovine meat to the former Soviet Union he indicated that those sales were faced with some difficulties independent of the EC will. In these conditions, the detailed modalities of such operations were not yet decided. He added that as soon as the measures regarding the reform of the CAP were adopted and the modalities of application of the triangular operations decided, the Community would submit to the IMC the respective written information.

6. In the MMAG meeting, the Argentinian representative informed participants about the policy changes in his country. A new economic stabilization plan was introduced in April 1991, which brought about a decline in interest rates and in inflation and a rise in real salaries, boosting domestic demand. In the context of an extensive liberalization reform of the economy, his authorities dissolved the Argentinian Meat Board (the "Junta Nacional de Carnes" (JNC)) in November 1991, with the Secretary of Agriculture assuming its functions. Furthermore, the official "Liniers" cattle market was privatized. Both measures were aimed at ending governmental intervention in the markets and would result in the reduction of public expenses. They were introduced in line with the new economic program which consisted in an extensive de-regulation and privatization of the economy.

#### 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/82 and IMC/W/82/Add.1) and the "Summary Tables" (IMC/W/83).

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

9. "I shall begin this report on the MMAG's discussions over the last few days by observing that the optimism that prevailed at our two previous meetings seems to have dimmed. I think the reason is to be found in the rather gloomy overall economic situation, and also in the widespread weakening of meat prices, both to the producer and as regards world price levels.

10. As far as the first point is concerned, with regard to the general economic situation, I note that the fears expressed in some quarters at our meeting last June have now proved well founded. There now seems to be no doubt that the world economic environment is close to a recession. Speakers have referred to growth rates that rarely exceed half of one per cent in 1991, declining per capita income in an increasing number of countries, rising unemployment and stagnant domestic demand in most countries. One bright spot is that inflation appears to have been brought under control in most industrialized countries, and we have heard that in some developing countries, such as Argentina, it has declined spectacularly. The forecast for 1992 nevertheless appears a little more optimistic, even if, as the representative of the United States said, economic growth in his country may well be "erratic".

11. In these circumstances, the situation and short-term prospects of international meat markets cannot be highly promising. (As usual, I shall deal at greater length with the situation and prospects of the beef markets and make some remarks concerning other meats at the end of my report). As I said, there is today a more or less widespread weakening of meat prices, and of beef prices in particular.

12. An unfavourable economic environment adversely affects **supply**, as the lack of confidence spreads to producers and industry, and also **demand**, in particular for beef, as flat or declining income have a direct impact on consumer behaviour: consumers either eat less meat, particularly beef, or buy cheaper meat, more frequently poultry meat. The example given us by the representative of Australia on this subject provides a perfect illustration: in a country that traditionally consumes more beef than any

other meat, economic conditions are such that despite promotion efforts that appeared to be bearing fruit just a few months ago, consumption of beef is now declining in favour of cheaper poultry meat. This is a "universal" trend in the customary meat-consuming countries and one of the main trends once again brought out by our discussions: in the final analysis, trends in beef consumption depend very heavily on the competitiveness of beef prices compared with other meats.

13. On the supply side this year, broadly speaking seasonal conditions during the year were quite favourable for cattle farming more or less everywhere, despite difficulties in Romania and a drought threatening in Australia. Furthermore, prices of cereals and feedstuffs for animals remained generally low. In these circumstances, the average slaughter weight of animals increased in many countries. This is basically the explanation for two things: one is the 2.5 per cent increase in total production of the countries members of the Arrangement; and the other is the fact that this rise took place when a significant number of the major producer countries are in the middle of a period of herd expansion. This is the principal trend I would say has emerged from our discussions concerning supply: higher production during a period of herd re-stocking.

14. This observation suggests one or two issues that might be taken up at our next meeting. The first is that it seems that the re-stocking rate is increasingly slow in an increasingly large number of countries (North America, Oceania). The second is that this may reveal a lack of producer confidence, but perhaps the problem is due rather to the fact that genetic progress on the one hand and animal feeding and finishing methods on the other should lead us to revise our conventional wisdom as regards (1) the rate of increase in herd size during the expansion period and (2) the length of the cycles and hence of the herd re-stocking and depletion phases. These are issues that participants may wish to reflect on.

15. I began my report by mentioning a weakening of meat prices. In the case of beef, we heard that producer and export prices declined in most countries of North America, Oceania and Europe. This weakening was

particularly apparent in the second half of the year in the first two regions, whereas in the European Community prices slumped in the first half of the year but, we have been told, recorded counter-seasonal rises in the second half of the year.

16. The decline in world prices in the area free of foot-and-mouth disease (FMD) is due to the fall in domestic prices in North America following the rise in production at a time of stagnant demand, and the decline in exports to Japan following the seasonal slowing of demand there. In the area where FMD remains endemic, the decline in prices is also attributable to higher production (in particular in the European Community) and an increase in the large Community meat sales from stocks that have risen considerably (estimated 903,000 tonnes at the end of the year). Export prices of Latin American countries have also declined in particular for industrial meat and canned and cooked meat.

17. While as far as prices are concerned the trend for 1991 is clearly a downwards one, which is also due to the abundant supply of other kinds of meat, prices have nevertheless remained relatively attractive this year, in particular in the FMD-free area. However, a further decline is to be feared for next year in this region. While prices appear to be picking up in the European Community, the question arises whether in the coming year world prices will also harden in the FMD area at a time when the supply of meat still appears to be over-abundant.

18. Estimated beef exports by participating countries increase by 2.4 per cent during the year. In the FMD-free area, I would say that the two main features I have noted from our discussions of this year were: (1) a decline in imports by the United States and its imposition of "voluntary" export agreements and (2) the decline in Japanese demand for imports.

19. I have already mentioned the causes of the drop in United States imports and the restrictions it has introduced for imports: higher production and stagnant demand. The decline in Japanese imports, we have been told, is due to high domestic and imported supply, together with a

seasonal weakening of demand since June. In the short and even medium term, Japanese imports are expected to pick up, while the Korean and Taiwanese markets, among others, are emerging as harbingers of good days ahead for this trading area. United States imports will again drop next year, but may climb thereafter. It is interesting to note that Canada exports larger numbers of animals to the United States each year, and imports larger quantities of meat from the United States, which is presumably connected with the restructuring of the Canadian industry.

20. In the FMD area, the prevailing trends in trade are certainly (1) the striking increase in Community exports and (2) the relative decline of the exporting countries of Central and Eastern Europe. This year, the European Community will export practically 50 per cent more than last year, thus becoming the world's number one beef exporter. We are told that its exports have increased to the Maghreb countries, Egypt, the Middle East and Brazil. In addition, large sales have been made to the Soviet Union on special terms, as well as to other Central and Eastern European countries.

21. The countries of Central and Eastern Europe are facing to varying degrees a vast range of problems caused by the shift from State-managed economies to market rules, and are in a domestic supply/demand situation which prevents them from exporting as easily as before. The Romanian delegate has told us in particular that export restrictions will be maintained in his country (through export quotas) in view of the scarcity of domestic supply (even though production has increased considerably). Apart from higher imports, the situation in the USSR remains unpredictable. In the immediate future, most of these countries will remain major meat importers, while exporting less than in the past. In the medium term, however, they may resume a major rôle as exporting countries.

22. As far as other meat is concerned, the prices of pigmeat, sheepmeat and poultry meat have also weakened in most countries, in particular owing to a rise in production. However, given the low prices of cereals, broadly speaking relatively low production costs have ensured that profit margins remained relatively good in the case of poultry production. The rise in

pigmeat production has led to a sharp drop in prices, which has badly squeezed producers' profit margins. In the case of sheepmeat, low wool prices continue to be the decisive factor affecting this sector. However, according to some participants greater competition from subsidized production on major markets is also a significant factor.

23. Finally, Mr. Chairman, I wish to draw your attention, and that of the Council, to the possible importance for our work of medium-term developments in the meat markets. The information we have received from a number of participants is not very encouraging, but I think it is right to add that we do not have sufficient data to make out the complete picture. I would therefore suggest another item for discussion at our forthcoming meeting in June: medium-term forecasts. I understand that if participants consider it useful, the secretariat would be ready to send participants a questionnaire for this purpose which would enable them to provide as full as possible a reply for that meeting. The questionnaire should reach participants by March 1992 at the latest.

24. I should like to thank all participants for their co-operation during our work."

25. The European Community representative noted the relatively sound situation of the bovine meat sector when compared to the other agricultural sectors, especially in the countries of the Foot-and-mouth disease (FMD) free zone. In answering a question related to stocks disposal in 1992, he indicated that the EC stocks since the beginning of 1991 had increased by only 200 thousand tons and should reach some 900 thousand tons by the end of the year. As a result, sales in 1992 should reach a level similar to the one reached in 1991 (around 1 million tons) and stocks should quickly decrease taking into account that production was expected to decline. In 1991, sales of intervention stocks were more important than purchases in most EC countries.

26. The New Zealand representative indicated her authorities' worries regarding the extremely high level of the EC beef stocks and the

Communities intention to dispose of such stocks in the international markets. She took note of the EC forecast regarding a beef production drop in 1992, and hoped to see it materialised. EC beef stocks were high enough and no more meat was necessary to contribute further to a surplus which had a destabilizing effect on international markets not only for beef, but also for competing red meat and especially sheepmeat. Regretting the impossibility to discuss the Commission proposals to reform the CAP in the IMC, she hoped that the EC would fully inform the Council at its next meeting on its plans and on their likely effects on the international markets for meat.

27. The Brazilian representative informed the Council that she had not received information regarding the market situation in her country, but that she would submit a written presentation to the Secretariat for inclusion in the present report (see annex).

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

28. No written questions were received by the Secretariat in advance of the meeting.

29. The Romanian representative informed the Council of the state of advancement of the agricultural reforms in his country. He noted that as a result of the implementation of the law regarding land ownership, former land owners, their inheritors or other citizens were now entitled to own land. In this way, eighty per cent of the agricultural land would become private. In 1991, about 79 per cent of the bovine meat production would come from private farms. The Romanian Parliament, he added, was also currently examining a draft law regarding agricultural credits. He indicated that the great majority of custom duties in his country varied between 20 and 25 per cent and noted that as from the beginning of January 1992, Romania would apply the Harmonized System for commodities description and coding. Furthermore, the import license regime has been further liberalized in the second half of 1991, import licences being now

issued automatically. However, and taking into account possible balance-of-payments difficulties, surcharges and quotas on imports could be introduced according to relevant GATT provisions even if, so far, no quantitative restrictions on imports of bovine meat and live animals had been introduced. Temporary export quotas for live cattle and meat products were introduced in 1991, while an export ban for certain bovine products was maintained. Such restrictions were reduced in the fourth quarter of the year. Last year, the exchange rate of the lei was unified and its convertibility introduced, leading to higher costs of imported raw materials, fodder, etc. and as a consequence, to increased State acquisition prices. Meat retail prices are thus expected to rise in 1992.

#### Examination of the functioning of the Arrangement

30. The Chairman indicated that according to Article VI, paragraph 4, the duration of the Agreement is extended for periods of three years at a time, unless the Council, at least eighty days prior to each date of expiry, decides otherwise. As the the date of expiry of the last three years' period was the end of 1991 and there was no other Council decision, the Arrangement was extended for another period of three years, until the end of 1994.

31. Noting that since the beginning of the Uruguay Round Negotiations, and in particular in the last Council meetings, no substantive discussion had taken place under this agenda item, the Chairman suggested that the situation being unchanged, i.e. the Negotiations not having been concluded, it seemed premature to engage such a discussion at this stage.

32. Speaking on a personal basis, the Chairman informed the Council about the interest that he had sensed among delegations regarding the information sessions with international professional organisations and/or member countries' special industry presentations or technical visits which had taken place in recent meetings of the IMC or the MMAG. He reported that certain delegations showed a special interest in meeting with the industry and producers representatives on a form to be defined, possibly on an

informal basis and "outside" the normal functioning structures of the Arrangement.

33. On a preliminary reaction, the representative of the European Community indicated the interest of his delegation in such an approach. He agreed that the framework for such contacts should indeed be an informal one, outside the normal functioning structures of the Arrangement and expressed his preference for such contacts to be related to the work of the MMAG rather than the IMC. He added that the decision to invite one or another international organisation should depend on their representativeness and discretion. A mechanism to decide when, how and who might be invited should perhaps be created and any invitation of national professional federations should obviously be the decision of the relevant delegation.

34. It was agreed that by March 1992 at the latest, the secretariat would send participants a questionnaire regarding medium-term forecasts, to which participants would reply to the best of their availability, to assist the MMAG discussions at its forthcoming meeting in June 1992.

Date of the next meeting

35. The IMC decided to hold its next meeting on Friday 19 June 1992, preceded by the meeting of the MMAG on Wednesday 17 and Thursday 18 June 1992.

Annex

BRAZIL - MEAT MARKET ANALYSIS

During the first nine months of 1991, according to data of the Animal Slaughtering Monthly research by CEPAGRO/IBGE, bovine meat production in Brazil raised by 3.8% vis-a-vis the same period in the previous year. While in 1990, during that same period, 10.015 animals had been slaughtered - from which 2.134 tons of carcasses were obtained - slaughtering in 1991 reached 10.391 animals, providing 2.216 tons of carcasses.

Exports in the same period show a 45% increase in the quantity of products sold (139.000 tons in 1991 against 96.000 tons in 1990) and circa 83% rise in the value of these products (US\$ 309 million in 1991 and US\$169 million in 1990), showing an increase of 26% in the average price of exported products (US\$ 2.223 per ton in 1991 and US\$ 1.764 in 1990). Rise in exports in 1991 seems due to the improvement in the domestic control of sanitary conditions, which made possible the reintegration of Brazilian industries to the lists of authorized exporters to the EEC and to the USA and, mainly, due to lower prices for slaughter cattle and bovine meat in the domestic market during the first half of 1991. In effect, it is useful to note that such domestic prices have been the lowest over the last ten years.

In relation to the importation, estimates indicate that imports should be somewhat lower than those in 1990 (circa 230.000 tons CWE), including the acquisition of 100.000 tons of the EEC intervention stock by the government in order to constitute domestic buffer stocks.

Among measures of national policy with influence in the meat sector, the following ones are to be noted:

- (a) bovine meat prices were totally freed from any official control;
- (b) exports and imports are freed as well;

- (c) based on legislations approved in the beginning of 1991 the government established rules for the selling of public stocks, accordingly, meat can only be sold if prices in the domestic market are higher than the average price in the previous 60 months;
- (d) based on the above mentioned legislation, a possibility of recourse to countervailing duty has been established in the case of subsidized imported products which may constitute unfair or predatory competition to the national like product;
- (e) implementation of the "Southern Common Market" (MERCOSUL) is under way; it aims at the integration of markets in Brazil, Argentina, Paraguay and Uruguay.

Concerning perspectives for 1992, there is fear for that recession could be exacerbated, which together with a strict monetary policy and high interest rates could lead to a decrease in consumption and lower domestic prices for meat, especially in the first half of the year.

Finally, statistics regarding swine and poultry meat indicate that, in 1991, poultry exports may have achieved 300.000 tons (US\$ 1.216/ton FOB, average price) and those of swine may have repeated the same performance of 1990 (circa 5.000 tons). With regard to the production of poultry and swine meat, estimates are for 2.6 million tons of carcasses for poultry and 1.2 million ton for swine, approximately.