Arrangement Regarding Bovine Meat

INTERNATIONAL MEAT COUNCIL

SIXTEENTH MEETING

Report

Chairman: Mr. Richard Hochwärtler

1. The International Meat Council (IMC) held its sixteenth meeting on 18 June 1987. 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/2425, but agreed to discuss Item IV before Item II.

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. Richard Hochwärtler (Austria) as Chairman and Mr. Piotr Freyberg (Poland) as Vice-Chairman.

Evaluation of the world market situation and outlook

3. 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/59); "The Medium-Term World Demand/Supply Outlook in the Light of Article IV, Paragraph 1(a) of the Arrangement Regarding Bovine Meat" (IMC/W/16/Rev.2); "The Instability of World Beef Markets" (IMC/W/25, IMC/W/33) and the "Summary Tables" (IMC/W/2/Rev.14).

(i) The Chairman of the Meat Market Analysis Group (MMAG), Mr. José Ramon Prieto, reported on the discussion of the Group which took place on 15 and 16 June 1987. First, however, he appealed to participants to provide replies to the statistical questionnaire on time, that is by 15 April and 15 October at the latest. Much of the content of the Status Report, he said, was highly dependent on questionnaire replies; indeed, up-to-date information for a number of the members was not available from any other source, which usually means no timely questionnaire reply and no information on that country in the Status Report.

* A list of participants has been circulated in IMC/INF/5.

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Beginning his report on the meat market situation and outlook, Mr. Prieto briefly addressed the international economic environment. Generally speaking, he said, it would seem that there is at present less optimism about the economic situation in most countries than there was a few months ago. Growth in industrial countries is slowing down and although inflation rates are expected to decline further in most of these countries, they are projected to rise in many developing countries. Unemployment rates remain at worrying levels, and although the export volume of goods will expand in industrial countries (by some 3.4 per cent), its growth in developing countries will slow down markedly, compared to 1986 (from 8.2 per cent then, to 2.8 per cent this year).

Turning to the bovine meat sector, he said that it turned out from the discussion of the Group that the major characteristic of the present situation is the price recovery in an important number of international markets. Indeed, this price recovery which started during the second half of 1986 now seems to be well under way. Furthermore, and taking into account the rising number of exporting countries entering a cattle herd rebuilding phase, he concluded that this recovery has, by and large, reached most producers in those countries. This seems to be the case for instance in North America, South America and Oceania (even if, as indicated by the New Zealand representative, the devaluation of the national currency in his country against the United States dollar has almost nullified the price rise at the level of the New Zealand producer). It appears, he said, that bovine meat prices are also rising in an increasing number of national markets, with the remarkable exception of the European Community where, according to the EC representative, market prices of almost all types of meat fell significantly in the first half of the year, with bovine meat prices falling by 5 to 8 per cent. However, some participants claimed that in spite of this, prices in the Community still remain at very high levels and that this is affecting domestic consumption.

The Chairman of the MMAG continued by saying that production of beef and veal in 1987 is expected to fall in the United States, Canada, Argentina, Uruguay, Australia and the EC, to name but a few. This seems to be the logical result of the cattle herd rebuilding in most of these countries and, taking into account their importance in the sector, it can be presumed that world bovine meat output will decline in the current year. As in previous meetings of the MMAG, the importance of the low price of feedgrains in the production of meats was referred to again by a number of participating countries. In particular, he said, it was interesting this time to hear from the representatives of countries such as Australia and/or Canada, that the "shifting" of producers from the grain sector to the beef and veal sector seems to have intensified somewhat. This would also be the case in some other countries. Nevertheless, it appears that low prices of feedgrains, although reducing production costs for beef and veal, have the negative effect of rendering other meats more competitive and this is especially true for poultry meat.
(v) As concerns the consumption of bovine meat, he reported that in the current year the intake of beef and veal is expected to decline in many countries. This should come as no surprise if the decline in production and the related price rise are taken into account. However, the issue seems more worrying and complex than this "normal evolution" suggests. He believed it to be clear from the discussions that the consumption of beef and veal is more and more affected by the rising consumption of other meats, in particular that of poultry meat. With some exceptions (in particular, in South America where no "structural" change in consumption patterns seems to be occurring) this applies to most countries here present. Although, he said, it was often heard in the course of the meeting that this increasing preference for poultry meat is price related (poultry meat being cheaper than bovine meat) other considerations, such as health ones, were also mentioned. Maybe one of the most interesting comments was the one related to the important publicity support that poultry meat receives from the private sector at the consumer level in a number of countries, as against almost non-existent advertising in the bovine meat sector.

(vi) The Chairman stated that in spite of the decline in consumption, the production fall in countries which are also large importers will result in an increased demand for imported beef. Import demand in the so-called "new markets" in South-East Asia is expected to develop further, while low oil prices and the Iran/Irak war will hamper any important demand recovery there, even if both countries continue to buy relatively important quantities of meat abroad. The Group was informed of a projected meat production rise in the Soviet Union, which is not expected to import increased quantities of beef and veal in the current year, unless prices offered are extremely low. As a matter of fact, one participant considered that export prices to the USSR are indeed very low. Perhaps one of the most important pieces of information that was given as far as beef imports are concerned, was the Brazilian intention to buy only some 50,000 tons from abroad in 1987. These are in addition to the 50,000 tons which were contracted for in 1986, which will only enter Brazil this year, thus totalling 100,000 tons. This means that Brazil, last year's second major world import market with 450,000 tons of imported beef, will disappear from the international scene as a major importer in 1987. Indeed, the Brazilian representative informed the MMAG of a set of policies implemented by his authorities including imports and export controls, thus allowing market balance to be restored.

(vii) The Chairman added that, as he had already mentioned, bovine meat production would fall in an important number of major exporting countries. As a result, exports would decline in the European Community, Australia, Brazil, the United States, Uruguay and Canada. This meant that international trade in bovine meat, in volume terms, would drop in the present year. However, reflecting higher prices in international markets, it could be expected that, in value terms, international bovine meat trade would rise. Finally, he said, the Group heard a brief description of new measures introduced in Brazil, Argentina and the EC.
(viii) He noted that world stocks of beef and veal are clearly lower than year earlier, largely as a result of a 37 per cent drop in European Community stocks. Since the European Community detains about half of world stocks, any important changes in EC stock levels are reflected in the international situation.

(ix) The Chairman of the MMAG concluded with a word of caution. He said that it is true that a price recovery is under way, that herd rebuilding is beginning in a number of countries and that import demand is there. He pointed out, however, that the Group remained aware of the cloudy economic perspectives in some major countries, the competition of ample supplies of lower-priced meats, which partly offset the price rise of beef and veal, and the conjunction of cycles in a rising number of countries. All these factors may well result in another depressed period for the bovine meat sector in the medium to longer term, and should give rise, he said, to intensified co-operation between participants.

4. The representative of Sweden briefly informed the IMC about the beef and veal situation in his country which had improved very much in recent months, resulting in a balance between production and consumption. This was mainly due to the introduction of a two-price system for milk in 1985 which led to a reduction in the dairy herd and a fall in the number of calves for breeding, resulting in reduced meat production. Since consumption levels have remained stable or improved somewhat, the result is market balance. This has also affected the trade situation of bovine meat which, during the first four months of the year, and for the first time in years, saw a larger import volume than export volume.

5. Participants agreed that the situation in the bovine meat sector had much improved in recent months and that there were reasons to be satisfied about likely developments in the immediate future. Participants also agreed, however, with the MMAG Chairman's concluding words of caution, and his advice to intensify co-operation in order to avoid a recurrence of the difficult situation a few years ago.

6. One representative was of the view that there were a number of factors suggesting that better market returns were unlikely to be sustainable in the medium or longer term. Her delegation was concerned about the situation in major subsidizing countries which, she believed, would contribute to further market instability by artificially stimulating production and further depressing world prices. She said that her delegation was greatly encouraged by the efforts being made in the European Community to tackle over-production problems, agreed that the process was necessary, and applauded the measures taken to reduce stocks. However, she expressed concern at the effect on world meat trade of a number of factors in the current situation in Europe such as the still high production levels, a record high export volume boosted by non-traditional sales which are unlikely to occur again this year, and the impact, direct or indirect, on the beef sector of measures taken in the dairy sector. She added that in the United States, the situation also remained uncertain, and prospects of further dairy termination programmes could not be ruled out. Her delegation also believed that for improvement in the world beef market to be sustained, Japan should take measures to allow beef demand to be better fulfilled.
7. Another participant stressed that the present state of affairs was largely due to the sudden import needs of Brazil last year which decompressed the market, allowing surplus stocks to decrease and export prices to increase somewhat. However, Brazil is not likely to buy big amounts of beef on the international markets during the current year. He said furthermore that there had recently been a visible trend towards measures aimed at a better control of production in a certain number of countries, a state of affairs which must be reinforced in order to have more rapid effects, so that a recurrence of the crisis two years ago can be avoided.

8. One participant said that this year's government purchases of bovine meat would be contracted to domestic producers and not to foreign sources. He also said that his country's export restrictions were currently being reviewed and would probably not be put into effect this year, thus allowing likely exports of some 250,000 tons and imports amounting probably to some 100,000 tons, 50,000 tons of which would result from 1986 contracts.

9. Another participant was of the view that balance on the world market started off with balance on domestic markets, so a wise policy in the future would be not only to ensure proper control of production in the domestic market but, also and above all, to aim at a balance of supply and demand. He said it was indispensable that future production growth be adjusted to demand prospects, signs of which were less encouraging than in the last two or three years. He further said that his group of countries was in a strong cattle herd liquidation phase as others were in a rebuilding phase. He believed that there was room for caution as concerns future production prospects resulting from too much herd rebuilding today.

10. One participant, in respect of suggestions that there should be controlled production reductions in low-cost countries, said that such suggestions denied any recognition of trade benefits and principles which were fundamental to GATT members. Referring to instability, he said that the small volume of world production traded (only 8-10 per cent) suggested that very small changes in large producers' trading volumes can have more than a proportionate effect on the world price. Furthermore, the low figure of world trade vis-à-vis production was, in his opinion, a reflection of continuing protectionist policies by the major importing countries around the world. Regarding recent price increases, he said that these were from very low levels and that consumers' reactions to price increases could be seen in a fall-off of consumption. Also, the attention of the IMC should be drawn to the fact that there is a wide disparity in domestic prices across the world, recent figures suggesting gaps of 50-80 per cent depending on the country. In his opinion these price gaps were a reflection of interventionist mechanisms, which were creating distortions in the price systems. He stated that his country encouraged reforms which aimed at reducing domestic prices in highly assisted industries around the world. As a matter of principle, direct payments to farmers which were de-couple from production decisions were less distortionary than other forms of support. He reminded participants of the need for further policy progress and of the distinct danger that institutional support policies were insufficiently flexible alongside market dynamics, including underlying production/technology trends which were further encouraged beyond commercial levels by distorted domestic price signals.
11. In his country, one participant informed the IMC, structural changes have been taking place for some years with a long period of cattle liquidation. Some stability appears now to have been achieved but his country’s cattlemen are currently wondering whether or not herd rebuilding will be sustained over the next two or three years. He believed expansion would be rather limited and restricted to those already in the business. He said that his country’s imports represented 8 per cent of domestic production and, although 1986 was an unusual year for bovine meat exports, these accounted for only 2 per cent of domestic production.

12. Another participant was of the view that increasing uncertainty about income prospects in the immediate future could result in some reduction in any expansion of beef and veal consumption. He shared the view of others that every effort should be made to try to moderate any price increases at the retail level in order to offer bovine meat at as competitive prices as possible. As concerns cattle, he said that his country’s total number of cattle is at its lowest since the early 1960’s and the rebuilding of breeding cow numbers is long overdue. Against the background of the relative improvement in the international situation, he thought that participants had an opportunity to seek improved stability of world markets.

13. One participant, agreeing on many points with previous speakers, was inclined to think that the improvement was only a very temporary phenomenon, due to a great extent to the unusually high imports of Brazil. However, this year the intended cutback in imports by Brazil alone would mean a drop in import demand by 350,000 tons. He wondered what countries in the world would make up for that loss, if any. Another big importer, the USSR, is not expected to increase bovine meat imports either according to ECE forecasts. In recent years, in his country, a traditional cattle producer, both cattle numbers and production reached historically low levels, largely as a result of low profitability. He did not think that the recipe offered by one country that all countries introduce measures to cut back production to maintain market balance was a generally acceptable solution. Instead, producers should be looked at differently in light of the agricultural policies followed by each country. Finally, he said that some commendable initiatives had been taken recently by a group of countries. However, it was too early to see the trade effects of these production-cutting measures.

Functioning of the Arrangement

14. In the brief discussion under this item, some participants reiterated briefly the background and purpose of the two proposals put on the table in December 1985 (IMC/W/49 and Add.1 and IMC/W/51) and last discussed in December 1986 (see paragraphs 2-9 of IMC/20). One participant again suggested that the discussion of the proposals be moved to the MMAG in order to make some progress but this was refuted by another participant who considered that the proposals were more appropriately discussed in the IMC. No decision was taken on this point. It was therefore agreed that the proposals remain on the agenda for discussion at the next meeting.
Replies to the inventory parts of the questionnaire

15. Participants were reminded under this item of the obligation to provide complete replies to the inventory parts of the questionnaire every three years, replies which should be updated whenever necessary. The latest complete revision was due in June 1986. The following countries were urged to provide a reply rapidly: Norway, Bulgaria, Hungary, Uruguay and Brazil. Norway informed the Council that the Norwegian reply would be forthcoming. The Norwegian participant also said that a number of measures introduced a few years ago to curb meat production had now been abandoned since the goal set had been reached.

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

16. Two sets of written questions were received by the secretariat in advance of the meeting (IMC/W/60 and IMC/W/61). The questions were submitted by New Zealand and Australia and were addressed to the United States, the European Community and Japan.

17. In reply to questions related to United States beef promotion activities in Japan and Hong Kong under the Targeted Export Assistance Programme (TEAP), the United States representative said that the TEAP was mandated under the 1985 Food Security Act. For each of the fiscal years 1986 through 1988 the minimum amount of funds or value of commodities required to be used was not less than 110 million dollars. For fiscal years 1989 and 1990, the minimum increase is 325 million dollars for the total TEAP, which does not however imply that the programme in Japan and Hong Kong will necessarily increase by over three times as much. The Administration submitted a proposal to Congress that the minimum level of funding for targeted export assistance in each of the fiscal years 1988, 1989 and 1990 be reduced by 30 million dollars. The 1985 Food Security Act authorizes the funding for the TEAP to overcome unfair trade practices faced by United States exports. Japan, the United States' largest market for meat, maintains import quotas on beef and variable levies on pork which, he said, are classified as unfair trade practices. The objective of beef promotion is to increase consumer awareness and demand for United States meat and meat products. The TEAP is basically used to finance media campaigns and promotions - specifically in-store promotions - menu-promotions, seminars for pork prices, hotel promotions, trade seminars, consumer seminars, recipes, box consumer newsletters, points of sale and materials. There are at present no figures available of expenditure for each of these activities, but the total expenditure is 6.5 million dollars for Japan and 1.5 million for Hong Kong.

18. Answering questions on the changes to the EC beef and dairy regimes, the representative of the European Community said that intervention stock levels in the Community by the end of 1986 were 260,000 tons lower than year earlier, totalling 535,000 tons. By the end of May 1987 they were 20 per cent lower than in May 1986. Noting that the bovine meat market in the Community is subject to supply and demand and that there is no such thing as a "certain stock level to be achieved", he said that by the end of 1988, EC stock levels might be below 100,000 tons. The Community was
pursuing its active and relatively ordered de-stocking policy and the fact that world prices were currently rising by 20 to 50 per cent (depending on the currencies) seemed to suggest that this policy was a success. The EC's policy, in the face of the cyclical evolution of production and prices, is to achieve and maintain market stabilization. The measures introduced in December 1986 which are provisional and will be revised, as well as those related to the dairy sector, aim for a better balance of supply and demand. The beef oversupply situation in 1984, 1985 and 1986 was provoked by measures taken in the dairy sector and as from next year a balance in the beef sector should be reached. Since the beginning of the 1980's, and especially from 1983 to 1985, the demand for beef has risen following the strengthening of the general economy. This year and next, as a result of an economic slowdown, consumption should rise at a slower rate, in spite of a 15 per cent decline in prices since 1983/84. As far as exports are concerned, the Community is projecting a decline of some 200,000 to 300,000 tons both this year and next. Referring to the so-called "balance sheet" manufacturing beef quotas, the EC representative recalled that these are not preferential GATT "quota arrangements" and that in these conditions, and taking into account the market situation, the Community can modify the quantity of manufacturing beef which can be imported at preferential terms. There is plenty of such beef in intervention stocks and as a result of the increased dairy slaughter, the "balance sheet" import levels were reduced to 25,000 tons and 15,000 tons respectively in 1986 and 1987. Although it did not have any legal obligation to do so, the EC compensated exporters by increasing the high-quality quota by 6,000 tons and 8,000 tons this year. He noted that these actions were in accordance with the Community obligations under the GATT and was consequently not contrary to "standstill".

19. In reply to a question related to the demand for beef in his country, the Japanese representative said that it has risen steadily until now. However, as a result of the appreciation of the yen, the growth of consumer expenditure in Japan has been slowing down rendering impossible, at that stage, any estimate of the evolution of demand in fiscal year 1987. In fact, he said, wholesale prices of dairy beef, the quality in competition with imported beef, have recently decreased steadily. Therefore, the Japanese authorities do not anticipate any additional beef imports at present. As far as the other questions were concerned, the Chairman agreed that these were valid in an IMC context and it was agreed that a reply should be forwarded to the secretariat for distribution before the December meeting.  

20. In reply to an oral question on a new system introduced in the beef sector in his country, the Argentinian delegate said that this is not an intervention purchase or stockpiling system. It is a "future purchases" system. In Argentina, where the consumption of beef is extremely high, slaughter levels decline markedly from July to September, resulting in

1/ See Spec(87)41. The Australian delegation, however, has advised that these replies did not fully address the questions raised and that it maintained its right to ask further questions at future meetings.
quite sizeable retail price increases. His country is currently implementing a strict economic programme aiming, *inter alia*, at the control of inflation. Taking into account the impact of beef prices on inflation, the new system aims to limit this impact. A public body, the Argentinian National Grains Board, offers a purchase price for meat to be delivered on the market at a later date, thus increasing slaughter levels in July, August and September. Noting that this system was introduced only a week earlier, the Argentinian delegate suggested returning to the matter in the December meeting.

21. The Brazilian representative informed the IMC that the meat sector in his country had been affected by changes in domestic macro-economic policies over the last eighteen months. He summarized the history of the effects of the "cruzado plan" and the measures introduced by his government (see paragraphs 12(vii) and 22 in IMC/20 and paragraphs 24-27 in IMC/19) to overcome the situation. At the beginning of 1987 the situation on the Brazilian meat market was thus stabilized. As a result, the authorities lifted some of the export controls and began to build up stocks in order to ensure adequate supplies of meat for the off-season. These stocks are made up mainly from imports carried over from last year and from the purchase of 100,000 tons of beef and 20,000 tons of pigmeat from domestic producers. Stocks are expected to reach 200,000 tons this year. With the normalization of the internal meat market situation, Brazilian beef imports should return to their historical levels and be limited this year to 100,000 tons, mostly covered by drawback arrangements. Exports should recover in the near future to their traditional volumes. A new set of economic measures was implemented recently including a new price and wage freeze for a 90-day period, and a substantial cutback in public spending so as to reduce inflationary pressure. As a result it is expected that meat demand will remain at current levels (2,000,000 tons/year) thereby allowing adequate supply for exports since production should rise to 2,200,000 tons, compared to 1,800,000 tons last year. As a consequence of the previous economic measures, alternative meats such as poultry and pigmeat has become more price competitive due to more efficient production technologies, but also to government incentives. A shift of consumer preference towards these meats was observed and this tendency should be maintained, although at a lower growth rate.

Date of the next meeting

22. Subject to changes as may be necessary for the multilateral trade negotiations, the IMC decided to hold its next meeting on Thursday 10 and Friday 11 December 1987. This meeting will be preceded by that of the MMAG on Monday 7 and Tuesday 8 December 1987.