

GENERAL AGREEMENT ON

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TARIFFS AND TRADE

Arrangement Regarding Bovine Meat

INTERNATIONAL MEAT COUNCIL

Twenty-First Meeting

Draft Report

Chairman: Mr. José-Ramón Prieto

1. The International Meat Council (IMC) held its twenty-first meeting on 8 December 1989. 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/2881.

Replies to the inventory parts of the questionnaire

2. 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 1989. The Chairman indicated that fourteen countries (Australia, Brazil, the European Community, Finland, Hungary, Japan, New Zealand, Norway, Poland, South Africa, Sweden, Switzerland, the United States and Yugoslavia) had already revised their inventories. Furthermore, the Austrian and Colombian representatives had made known to the secretariat that no changes in domestic policies or trade measures affecting trade in bovine meat and live animals had occurred in their countries since their last notification, while Japan had submitted an updated version of its last revision. The Chairman encouraged those who had not yet submitted revisions (Argentina, Bulgaria (no answer since 1981), Canada (whose revision has been submitted

since then), Romania, Tunisia and Uruguay (who had nevertheless submitted a revision in May 1988)) to do so at their earliest convenience. He referred especially once more to Egypt, Guatemala, Nigeria, Paraguay and Belize who have never submitted replies to the inventory.

Evaluation of the 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/72 and IMC/W/72/Add.1); and the "Summary Tables" (IMC/W/2/Rev.19).

4. Mr. José-Ramón Prieto, acting in his capacity of Acting Chairman of the MMAG, made the following report of the discussions of the Group to the Council:

"Before I start, let me apologize for what will be a very brief report, especially when compared to previous ones. I have to admit that the MMAG meeting was a most interesting, but also longer than expected one, leaving little time for the preparation of this report. This is anyway in accordance with the desire expressed by many of you in the IMC informal meetings of last October and November. Furthermore, as I indicated in the MMAG meeting, a more detailed version of this report will be included in the secretariat's report of this IMC meeting. So, let me just address the major tendencies that I perceived in our meeting of the last two days.

First of all, I would note that the general economic environment remained a most favourable one in 1989 compared to the first half of the 1980s. Even if some slowdown of the economic growth is estimated to have occurred (and to continue through 1990) in both developed and developing countries, most countries' economies are expected to continue to expand. Furthermore, a larger co-ordination of economic and monetary policies in the world's major economies, has contributed to increased economic stability. Thus, even if some inflation resurgence has occurred in a number of industrialized countries and remained extremely high in some

developing ones, unemployment levels remained at "manageable" levels most of the time, and conditions seem to be set for a relatively healthy outlook for the short to medium term. [Also, we are now experiencing deep economic (and political) reforms in most Eastern European countries.]

In this relatively favourable economic conjuncture, and after an extremely difficult decade, the international bovine meat markets situation and outlook is a very much improved one. International beef prices, extremely depressed in the middle of the 1980s (reflecting by and large heavy dairy cattle slaughter resulting from programmes to reduce milk output), have now recovered sharply. The recovery started in 1986 following massive imports by Brazil, which allowed for the absorption of large beef and veal stocks in both the United States and the European Community. The depletion of cattle herds and rising prices led to cyclical cattle herd rebuilding in many countries.

As a result, bovine meat supplies declined and import demand began to increase favouring further price strengthening. But while conditions were improving, a serious drought intervened in North America (and also South America) in 1988 which resulted in a dramatic rise in forage and feedgrain prices. In other words, production costs increased markedly again cutting producers' profit margins in most countries. This led to a relatively difficult period in the second half of 1988, beginning 1989. Meanwhile however the gradual liberalization of the Japanese market intervened, the Republic of Korea resumed its imports, the European Community stock levels had gone down sharply and prices recovered rapidly again.

Furthermore, in 1989 seasonal conditions improved in a number of countries and regions (especially in North America) and production costs are tending to decline once more. Consequently, cattle producers' earnings increased significantly in most countries and cattle herd retention strengthened again. In a number of major producing countries cattle herd rebuilding is now under way, resulting in tight beef and veal supplies for the next year or two. With import demand expected to remain strong, this seems to be a guarantee for the continuation of an improved bovine meat markets situation in 1990 and 1991.

I had the feeling that for different reasons, two or three countries were, in one way or another, at the centre of the Group's attention in the last two days. These countries were Japan (but also Korea) Brazil and Poland (which seemed to me "represented" a bit of the Eastern European countries' on-going evolution). The keen interest in the Japanese market clearly shows the importance of the liberalization measures introduced by this country. As I mentioned, the opening of this market is partly responsible for the current rise in international bovine meat prices. It also underlined one of the major problems affecting the international bovine meat trade: the separation of the market into two "areas" the "foot-and-mouth disease area" and the "foot-and-mouth disease-free area". Indeed we heard the "happy few", if you will allow me this expression, forecasting buoyant outlooks for their countries' industries, based by and large on the liberalization of the Japanese market (but also the Korean one and strengthened import demand in North America). But we also heard those countries where foot-and-mouth disease is endemic, regretting the impossibility of benefiting from prices sometimes four to five times higher.

The reason why Brazil was another country to be at the centre of our debate did not seem to me to be exclusively due to the excellent exposition made by the two Brazilian experts attending the meeting.

In 1989, we heard, the difficult supply situation in this country was, along with sharply reduced stocks in the European Community, a major cause of the significant price rise which occurred in the foot-and-mouth disease area. As a matter of fact, when Brazil is absent (or less present) in the international market, prices in this area tend to rise consequently. Furthermore, the presence or absence of this country in the international market depends by and large on the Government's general economic policies. With Brazil currently going through general elections, it is difficult to predict at this stage what impact the outcome of these elections will have on this country's meat industry. In other words, the Brazilian 1990 outlook remains a source of uncertainty overhanging this area of trade.

The other country I mentioned was Poland. I thought the Polish presentation was a particularly interesting one, not only because of the political and economic evolution within Poland itself, but also because it tackled many of the issues with which, I believe, other Eastern European countries are, or will be faced in the near future (even if significant differences exist among those countries). Thus, we heard a list of the current "severe economic developments", as the Polish representative put it, but also the measures introduced by the new government to overcome such difficulties. We also heard about the different measures introduced in the agricultural sector, and in the meat area in particular, ranging from the abolishment of the meat rationing system to clear moves to a more market-oriented policy.

The immediate result of this general economic and sectorial turmoil has been a serious disturbance of the supply/demand situation of bovine meat, with production and consumption expected to fall significantly, imports rising and exports falling and prices rising sharply. The first positive effects of market liberalization are nevertheless expected to be felt next year. However, although renewed market profitability has been found, currently favouring cattle herd retention, it is difficult to foresee the short- to medium-term trends. This means that here too (and possibly in most East European countries) we are faced with major uncertainties.

The reason why I focused my attention on these three or four countries is twofold. On the one hand, we have highly priced markets dismantling import barriers and consequently importing higher quantities of beef and veal, at a moment of declining export availabilities in supplying countries. This means an assurance of continuing attractive prices (if not rising further). On the other hand, we have uncertain market signals coming from major producing countries (but also, at least potentially, major consuming ones) where evolution remains largely dependent on general (and changing) economic policies. In summary, I would say that although the international bovine meat markets have seldom been so buoyant in the last decade in both areas, this evolution seems to "favour" more those countries operating in the foot-and-mouth disease-free area than those

operating in the foot-and-mouth disease one. Furthermore, the near - even maybe the medium-term outlook - appears to be a more "predictable" one for the former than for the latter.

You will allow me only a very brief general comment on other meats. Most participants estimated that the increase of feedgrain prices in the second half of 1988 and beginning 1989 had had a negative impact on the production of competing meats. For instance, pig herds experienced a decline in many countries, reflecting declining returns to producers. Interestingly, however, in some countries and especially in the United States, we heard that the poultry sector's "explosive" production growth observed during the 1980s had hardly been affected. Among reasons which could explain this fact seem to be better marketing techniques in the sector, price-relative advantages, income-related reasons, etc. Again falling feedgrain prices as of this year will presumably result in continuing large availabilities of competing meats which will once more impinge on current prospects for continuing rising international prices of bovine meat. Finally, we heard the warning that the on-going cyclical cattle herd rebuilding in a large number of major producing countries may well result by 1993-94, if not earlier, in a significant increase of beef and veal supplies with concurrent depressing effects on the international beef prices.

Gentlemen, I will stop here. As I had indicated, I only tried to stress some of the major tendencies that I perceived in the MMAG debates. Let me remind you once more that a somewhat more detailed version of our discussions will be included in the secretariat's report of our meeting today. Thank you."

5. One participant noted that international bovine meat prices would increase further as from the beginning of 1990, even if the rise would be stronger in the foot-and-mouth disease free area than in the infected area. He noted that the presence or absence of the European Community in the market is generally the main factor influencing market conditions in the latter. However, in his view, the key factor in 1990 would be Brazil: average international prices in that area could rise by some 20-25 per cent

if Brazil is present as an exporter, but the rise would be much stronger if Brazil is again a major importer.

6. Major droughts in New Zealand and dry conditions in Canada and their impact on feed and pasture conditions were considered by the representatives of both countries as major factors affecting the supply of bovine meat by both countries in 1989.

7. After stressing the importance of the MMAG work for his country's industry (especially in relation to adequate market information and forecasting), and referring to a comment heard in the MMAG meeting, one participant regretted that the improved beef situation and outlook owed little to policy changes (with PSEs in major countries rising in 1988 and 1989). He welcomed the evolution in Japan and Korea, as well as efforts going on in Poland and Sweden aimed at dismantling support arrangements. However, he regretted that in the EC, the fundamentals of access barriers, export restitutions and domestic support remained very much in place. He nevertheless recognized that there are broad policy developments in the EC which are moving in the right direction, i.e. towards the decoupling of production. He also recognized that the United States had put forward a comprehensive package in the Uruguay Round of negotiations for the dismantling of access barriers, export subsidies, domestic support and other measures, which allowed him not to go through the criticisms of the Meat Import Law. He concluded that the improved situation faced in the bovine meat sector was not due to any fundamental liberalization of access, export subsidy or domestic support measures. The challenge facing the Arrangement was whether it could contribute to this process, and a judgment in this respect would need to be made at the end of the Round.

8. The Brazilian participant indicated that the uncertainties concerning the market evolution in his country were beginning to be dispelled. Indeed, the recent full liberalization of all exports and imports of bovine meat in his country should contribute to this effect. Even if the presidential elections in Brazil would determine more precisely the orientation which would be followed, his country was willing to participate

in a competitive manner in the international meat market, both as an importer and exporter.

9. The EC representative noted that in the Community reply to the inventory on policy measures, the policy changes recently implemented in the bovine meat sector were duly reported. He also alluded to the budgetary efforts which had accompanied such sectorial efforts and recalled that a substantial renegotiation of agricultural policies was going on in the Uruguay Round, where his authorities' proposals were widely known and where they intended to submit a global proposition by the year end. He recalled that the Community was the one which had contributed the most to market stabilization and to a significant price rise. Another spokesman for the EC went on to recall the evolution of the bovine meat market over recent months in the Community and reiterated that the level of support there was at present 20 per cent lower than two to three years ago. Seemingly, in the framework of the stabilizer mechanism in the sheepmeat sector, the support level was 10 per cent below two years earlier. In concluding, he stressed the importance of the examination of the evolution of feedstuff prices by participants and especially of its impact on the developments of the different types of meat.

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

10. No written questions were received by the secretariat in advance of the meeting. In response to an oral question, the EC representative said that the maximum purchase intervention prices were published in the EC's Official Journal. The last maximum purchase price had been of ECU 267/100 kgs., around 20 per cent lower than the average intervention price (ECU 344/100 kgs.), which was indeed the level of the purchase intervention price in the old system (if only the "continental" part of the EC was taken into account, the price drop would have been of some 25 per cent). This clearly illustrated that the support level in the Community, as far as the bovine meat sector was concerned, had declined by 20-25 per cent. Answering another question, he said that the CAP protection was expressed in ECUs and that price support levels expressed in national

currencies could easily be calculated by interested participants using the green rates published in the Official Journal. In replying to another question he indicated that the determining factor in future of developments in the EC bovine meat market would be the internal market prices evolution. The on-going bovine meat price rise would consequently push producers to increase production in the coming months, which would be further supported by declining feedstuff prices. Furthermore, at the Ministers' Council of the 13 February 1988 the Community accepted a budgetary discipline which also has a significant impact on the sector: the annual rhythm of expenditure progression of the FEOGA should not surpass 74 per cent of the annual growth of the Community GNP. In other words, 1988 expenses (about ECU 27.5 million) constitute the basis for the establishment of annual expenditure of the EC. As a result, in 1989 and 1990, expenditure should by no means surpass ECU 28.6 million and ECU 30.6 million, respectively. Indeed, in 1989 expenditure remained well below the maximum level. He noted that, in the framework of the Uruguay Round Negotiating Group on Agriculture, the Technical Group on Aggregate Measurement of Support and Related Matters had examined the PSE data submitted by the EC. Furthermore, OECD data on the same issue (even if contested by the Community, and indeed the majority of OECD countries) were also available, and he invited interested participants to refer to related documents for more detailed information on the levels of support in the EC. On another question, he said that there were no GATT commitments as regards the balance sheet import quota and that the levels of such quotas for 1990 had not yet been established.

11. The Swedish participant gave the Council detailed information on a proposal for a changed agricultural policy in his country, published in October 1989 and based on a report from a Parliamentary group. His information was circulated in the room as a working paper and is reproduced in Annex I. Referring to the decision process, he said that all interested parties in his country had a possibility to submit comments on it until mid-November 1989 in order to allow the Government to submit a formal proposal to the Parliament by mid-March or April, hopefully to allow for new policy guidelines to be applied as from 1 July 1990.

12. In answer to a question, the Uruguayan representative indicated that a study was being developed in his country aiming at the elaboration of a plan to eradicate foot-and-mouth disease in collaboration with other countries.

13. In reply to one question, the representative of Argentina informed the Council that there were currently no new outbreaks of foot-and-mouth disease in his country and that in the next meeting of the MMAG more detailed information on this issue would be presented by his delegation.

Examination of the functioning of the Arrangement

14. The Chairman recalled that in the June 1989 meeting a number of procedural questions had been raised. It had consequently been decided to organize one or more informal meetings to discuss such questions and to submit any possible procedural improvements to the Council for adoption at its December 1989 meeting. The Council had had two informal meetings where it became clear that there was room for a rationalization of its procedural functioning, especially the reduction of time between the meetings of the MMAG and the IMC and the need to maintain a clear separation between technical issues and commercial policy discussions. However, opinions had diverged on how to proceed in order to achieve the former. After lengthy discussions three possibilities had emerged: (1) to dismantle the MMAG; (2) to suspend the MMAG for one year at the end of which participants would decide whether to keep it or dismantle it; and (3) to start the IMC meeting, interrupt its work, change the Chairmen and continue in a MMAG session. Once the technical discussions came to an end, the MMAG session would be closed, the Chairmen would be changed again and the IMC discussions would continue. Mr. Prieto pleaded with participants not to waste much time on a matter already largely discussed and recalled that only one more meeting of the IMC and the MMAG would take place before the end of the Uruguay Round and that nobody could know how the negotiations might affect the Arrangement.

15. The Chairman's pleading was successful and, after a brief debate, participants agreed that in view of the Uruguay Round negotiations it might be premature to change the Arrangement's machinery. The secretariat was

consequently entrusted to organize the work of the June 1990 meetings in such a way that a minimum possible time be lost between the MMAG and IMC meetings. Referring to the list of points concerning the functioning of the Arrangement, which had been circulated to participants for possible discussion, the secretariat indicated that in view of the debates it seemed also premature to introduce changes that might result in a further burden to participants (which some of the points implied) and suggested that no discussion on such points take place. The participants did not oppose that the secretariat be left a greater flexibility as far as the request for information to non-participating countries is concerned.

16. The representative of Switzerland informed the Council that it was his authorities' intention to organize a technical visit for participants in June 1990.

Date of the next meeting

17. Subject to changes as necessitated by the Multilateral Trade Negotiations, the IMC decided to hold its next meeting on Friday 22 June 1990, preceded by the meeting of the MMAG on Wednesday 20 and Thursday 21 June 1989.

ANNEX I

Swedish Notification of Intention to Reduce Support
and Protection Levels for 1990 in Agriculture

The background and mandate of the Parliamentary working group is set out in the enclosed summary. It identifies three points of departure:

- reduction of present levels of border protection in tandem with efforts by other countries with particular reference to the GATT Uruguay Round negotiation;
- simplification or elimination of internal regulations including review of price and marketing guarantees;
- identification of new ways to meet food security, regional, and environmental goals.

The mandate and points of departure to the working group proposed by the Government were in all main aspects shared by Parliament.

The proposals of the Parliamentary working group are in essence the following:

Border Protection

From 1991, as foreseen in the mandate of the working group and in line with the foreseen GATT Uruguay Round agreement, the objective is substantial progressive reductions in agricultural protection including the possibility of tariffication.

Internal Regulations

The internal price regulations and price guarantees should be abolished. Prices will be determined freely by market forces (given the border protection referred to above).

Export Subsidies

Export subsidies will no longer be given.

National Security

Geographically limited support will be given to uphold a minimum production capacity and stockpiling necessary in the northernmost regions.

It is not foreseen that overall national production capacity will diminish to reach critical levels (deemed to be around 2 million ha.). Should nevertheless this happen contracts to uphold production based on commercial bidding could be concluded between farmers and Government to address the food security objective. (The latter is in any event not relevant for 1990.)

Environment

In certain areas (mainly pastures in forest or mixed areas in central and southern Sweden and areas of a specific historical value) where arable land, as a result of reform, would otherwise be turned into forest, conservation contracts could be concluded between farmers and public authorities to maintain the open landscape.

Transitory Measures

Since present production capacity is oversized particularly in the grain sector, prices could temporarily fall to levels where only variable costs are recovered (with side effects on other production sectors). In 1991/92 a floor price is therefore proposed. A supplementary income support compensation successively reduced over three years (in the form of a lump sum payment) will be given to assist the adaptation to future equilibrium levels.

It is foreseen that the existing dairy pension scheme will broadly take care of the needs for transitory support in the dairy sector. Support

will also be given to highly indebted farmers in order to facilitate a socially acceptable exit from the sector or in financial reconstructions to assist farmers who recently entered the sector.