

**GENERAL AGREEMENT
ON TARIFFS AND TRADE**

RESTRICTED

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Arrangement Regarding Bovine Meat

INTERNATIONAL MEAT COUNCIL

Twenty-Ninth Meeting

Draft Report

Chairperson: Ms. Brid Canon

1. The International Meat Council (IMC) held its twenty-ninth meeting on 21 January 1994. The IMC agreed to invite the Popular Republic of China to participate, in an observer capacity, in the work of the Council. The IMC also agreed to invite the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu ("Chinese Taipei") to participate, in an observer capacity, in the work of the Council. It was further agreed that the invitation to Chinese Taipei for this purpose was without prejudice to the position of any participant to the Arrangement with respect to the legal status of Chinese Taipei.
2. The IMC adopted the agenda set out in GATT/AIR/3541.

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 at the beginning of each three year period. This revision was consequently due in June 1992. The Chairperson indicated that the majority of participants had revised their inventories accordingly. However, like in the June 1993 meeting, she noted that in many cases the replies to

the inventory parts of the questionnaire were unsatisfactory, remaining vague and far from comprehensive.

4. Participants were reminded that according to Rule 16 of the Rules of Procedure, they are required to notify changes in their policies and measures as soon as these occur and in any case for the June meeting.

Evaluation of the market situation and outlook

5. 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/92) and the "Summary Tables" (IMC/W/93).

6. The Chairman of the MMAG, Mr. Peter May, presented the following oral report of the discussions of the Group to the IMC:

7. "Let me start by saying that the discussions in the MMAG meeting over the last day and a half confirmed my impressions that the world meat markets situation and in particular, the bovine meat markets situation, has been a relatively satisfactory one in 1993, a trend expected to continue through 1994. This was despite an unfavourable economic environment and certain sector specific developments which resulted and will still result this year, in restricted market access opportunities. Maybe my optimism is also due to the fact that the outcome of the Uruguay Round negotiations will hopefully limit chances for this type of actions. I will firstly make some few general comments, picking and correcting some of my introductory points of yesterday's meeting, and will go afterwards to some more detail.

8. In 1993, estimated *total world meat production* increased, reflecting an output rise of pigmeat and poultry meat. *Beef and veal* production is estimated to have declined, reflecting lower cattle numbers in the European Community and in most Central and Eastern European countries and the CIS. We heard some indications suggesting that *world meat consumption* patterns may be changing somewhat from recent years. Some European Nordic countries reported that beef and veal consumption increased somewhat at the expense of the consumption of poultry meat, probably reflecting increased per capita income. A similar trend was reported by other participants although in some cases for different reasons, including changed price relativities among the different types of meat. Nonetheless, I would not go as far as saying that recent years' trends are behind us. In a number of industrialized countries meat consumption increased in line

with demographic developments, but on a per capita basis, the substitution of beef and veal consumption by cheaper meats, in particular poultry meat, continued and was supported by a depressed world economy. Japan and some other Asian markets were again among the few places where beef and veal demand expanded strongly, a trend I hope will continue this year and in the future.

9. *World meat trade* stagnated or declined marginally last year, with increased exports of poultry meat offsetting lower beef, pigmeat and sheepmeat sales. The fall in *beef* trade reflects reduced exports of major exporting countries, in particular the EC. There were exceptions, for instance New Zealand and Canada. North Asian markets continued to be the most dynamic ones, with Japanese imports reaching new records and surpassing domestic output. While average *beef export prices* for high quality beef remained relatively strong in the Foot-and-Mouth (FMD) disease free area, prices for manufacturing beef seem to have weakened following the imposition of Voluntary Export Restraint agreements by the United States. Even if we were told that in the FMD area, beef demand had strengthened, this does not appear to have resulted in higher prices for manufacturing quality beef, and prices for high quality beef seem to have been affected by increasing offer. Finally, *world beef stocks* decreased significantly following a sharp reduction in intervention stocks held by the European Community.

10. Looking into the short term outlook, it can be added that last year's developments in the European Community beef sector, bear prospects for increased market opportunities for other exporting countries and for stronger export prices in the FMD area. The concern was nevertheless expressed regarding the possible recourse to increased export subsidies before the implementation of the Uruguay Round results. In the FMD free area, access to the United States and Canadian markets will again be restricted this year, with the US limiting imports under the MIL and Canada renewing the imposition of a tariff rate quota on beef imports from countries other than the United States. North Asian beef import demand is expected to expand further and, despite the restrictions in North American markets which result in a growing export diversification to this area, prospects are for continued firm export prices.

11. One of the interesting aspects of our meeting was that this was the first time that a significant part of our discussions concentrated in the medium to longer term situation. Looking into 1995/96 and beyond, and despite the good news related to the conclusion of the Uruguay Round, in particular export subsidies reduction commitments and the dismantling of non-tariff measures such as the United States and Canadian Meat Import Laws, I noted the concern of a number of participants. Interestingly, Madame Chair, an improved market situation in the

European Community in the last few months and possibly through this year, and especially sharply reduced intervention stocks, is somehow responsible for this concern: a number of participants fear that this improvement is only a temporary one and that prospects for increased output will result in the EC beef stock rebuilding in the next two to three years.

12. Although it was acknowledged that the European Community has, under the CAP reform, initiated a process which tends to check excessive production growth, it appears that the recent market improvement had little to do with the reform. In other words, and if my interpretation of the discussions is correct, uncertainties remain regarding the real impact of such reform in the meat sector, in particular in the beef sector. One of the uncertainties, which was indeed referred to by the EC representative himself, is the impact of lower cereal prices. As he indicated, the mid term evolution of the sheepmeat sector, already affected in recent years by low wool prices, will not be favourable because of increased competition of pigmeat and poultry meat. The beef sector too, will suffer further from increased competition from these types of meat.

13. Turning to the specifics, I would note that despite the prospect for restricted access to North American markets, Australian lower cattle turn-off is forecast to allow for increased cattle saleyard prices in 1994/95. Beef and veal exports should rise marginally reflecting also the slow economic growth in Japan. Over the medium term, the tariffication of the United States Meat Import Law due to the successful outcome of the Uruguay Round should result in increased access to the US market. Exports to Japan are expected to continue to grow, largely reflecting increased sales of grainfed beef. The progressive reopening of the North Korean market is resulting in the expansion of exports to this market and increased consumer incomes are expected to stimulate demand for beef in countries such as Hong Kong, the People's Republic of China and Chinese Taipei.

14. Last year, New Zealand beef exports were again affected by restrictions in the North American market. However, in contrast to what happened in Australia, at a moment of expanding production cattle prices declined, a development accentuated by the New Zealand dollar appreciation against the US dollar and export diversion to lower paying markets. A growing beef herd is expected to result in beef output expansion beyond 1994.

15. While bovine meat production seems to be stagnating in Japan, possibly due to declining wholesale prices over the last three years, beef imports rose significantly. The rise was related to the reduction of tariffs down to 50 per cent on 1 April 1993 and to the appreciation of the yen against most other significant currencies. In the 1994 Japanese Fiscal Year, beef imports are

expected to expand at a lower rate than in 1993. Madame Chair, as I indicated, Japan is among the few countries having apparently recorded an increase in beef consumption at the expense of the consumption of pigmeat and poultry meat.

16. Turning now to Europe as a whole, let me first note that the political, social and economic transition continued to have its bearing in the meat market situation of the Central and Eastern European countries. The severe run down in livestock inventories in the last few years resulted in sharp output reductions in most of these countries. In summary, and at the risk of generalizing too much, meat output trends have been to decrease in large state-owned farms where constraints are more severe, and low wages constitute little incentive, than in the private sector. We were for instance told that in Poland the largest farms are in a difficult situation. In these farms meat production continues to go through severe rundowns every year, while it has stabilized, or begins to recover, in smaller and privately-owned farms. We did however hear, that hopefully the situation may well have bottomed out last year and that there are some prospects for recovery this year and next year.

17. As I indicated earlier, we heard with interest that in some Nordic European countries beef and veal consumption increased, at the expense of other meats, possibly reflecting increased consumer income. This does not seem to have been the case in the European Community, where economic recession and high unemployment rates resulted in stagnant or even declining beef consumption. In spite of this, and of my earlier comments on the possible limited impact of the CAP in the beef market so far, nobody contradicted the Secretariat's market analysis situation and outlook report (IMC/W/92), when it states that "the most significant changes, and probably those which bear the most encouraging potential for an improved situation of the international bovine meat markets in the near future, occurred in the European Community".

18. I must also express my surprise not to have heard some more enthusiasm in the room when the EC representative indicated that maybe in the next June meeting, he will be in a position to announce intervention stock levels at around 150 thousand tons. Possibly, Madame Chair, reactions were measured because of the uncertainties regarding the medium to longer term prospects in the EC which I referred to before. For exporting countries, and in particular for those operating in the Foot-and-Mouth (FMD) disease area, lower export volumes by the Community are good news, bearing prospects for increased market access opportunities in regions to where some of them were traditional exporters (and possibly elsewhere) and for increased export prices.

19. Looking across the Atlantic, to South America, we were told that in Argentina, beef and veal exports, after a significant fall last year, are expected to recover as from 1994 through 1995 at relatively firm prices. Despite lower cattle prices last year, effects of price recovery reported since the implementation of the Convertibility Law continue to be felt. Argentina efforts to eradicate FMD are proving rewarding and things remaining unchanged, Mesopotamia, a major cattle raising area in the country could be declared free area as from next September.

20. In Brazil too, perspectives seem to be good in relation to technological improvement based on expansion of animal disease control, especially FMD which, the Group was told, is being eradicated in the main producing regions. Faced with formidable inflation rates, the Brazilian economy is nevertheless growing rapidly. Monitoring of the domestic meat market is not an easy task, but meat demand is expected to accompany per capita income growth. Nevertheless, Brazilian exports, which declined in 1993, are expected to be maintained thanks to technological improvements.

21. In North America, slow cattle herd rebuilding continues in line with sustained prices. In the United States beef production is expected to expand significantly in 1994, largely due to efficiency gains in cattle feeding and increased slaughter weights. Last year, cattle imports from Canada and especially Mexico grew to record levels, while US beef exports were reduced. Beef imports were also lower reflecting the imposition of VERs on beef exports from Australia and New Zealand. In 1994, and for the fourth consecutive year, these restrictions will again be imposed to the two countries. In an interesting comment regarding the implementation of the NAFTA agreement on 1 January this year, the US representative indicated that although US-Mexican cattle trade is expected to increase in both directions, it was estimated that this rise would have little effect on US cattle production and prices. The Canadian trade outlook for this year is for a contraction of both imports and exports, a forecast which will be related to the imposition of VERs by the United States on Australia and New Zealand, as well as the 25 per cent tariff applied to imports from those countries in excess of 72 thousand tons.

22. Madame Chair, my summary of our "tour de table" would not be complete if I did not add that, according to the observer from the European Commission for Europe, the livestock sector in the CIS continued to be affected by reduced production, even if output of meat products increased for instance in Russia. Increased input costs, poor roughage production and deteriorating profitability are among the factors responsible for such developments. In the short-term, the meat output decline may slow down in Russia, but such developments will depend largely on the fate of ongoing economic and social reform. Finally, the FAO observer informed

us of a one per cent reduction of overall meat imports by developing countries, due to lower purchases by countries in Latin America and the Near East. This was only partially compensated by larger imports by Africa. Meat output in developing countries is expected to recover by 4 per cent this year, with pigmeat and poultry meat output recording the fastest growth.

23. Finally, Madame chair, a word on other meats. World poultry meat production grew faster in 1993 than competing types of meat. World exports of poultry meat grew even more strongly than production. Notably China and the United States recorded significant export growth. World pigmeat production increased only marginally, while sheepmeat production declined. World exports of both pigmeat and sheepmeat declined in 1993. In the sheepmeat sector, this was largely a result of lower availabilities from New Zealand.

24. Forecasts for 1994 indicate that world production of poultry meat will increase by another 3 to 4 per cent. The major producers, the United States, China, the European Community and Brazil are expecting increases in output. Pigmeat production is also set for another expansion in 1994. Sheepmeat production is forecast to recover back to 1992 levels. In both the EC and in New Zealand, sheepmeat production is anticipated to remain unchanged. With regard to world wide exports in 1994, relatively strong growth is forecast for poultry meat and pigmeat.

25. In conclusion, Madame Chair, I would like to thank all the participants and observers for their participation and cooperation in providing for an interesting meeting."

26. The representative of the European Community indicated that the report of the Chairman of the MMAG did not properly reflect the discussions of the Group, in particular the situation in the European Community. He suggested that some more time for the preparation of the report might be required in the future. He noted as an example that he had indicated in the MMAG meeting that EC exports in 1993 had remained unchanged and had not diminished, as indicated in the Chairman's report. Noting that market prices were currently above intervention prices, he said that no beef was being bought into intervention. He indicated that, on the basis of available data, he could not agree that EC intervention stocks could rise by 1995 and 1996. He added that the CAP reform limited intervention purchases at 650 thousand tons in 1994, 550 thousand tons in 1995, 450 thousand tons in 1996 and 350 thousand tons in 1997. This would naturally limit stocks to build up again. He noted that lower cereal prices would bring about lower meat prices, resulting in increased meat consumption. Pigmeat and poultry meat consumption would rise, but so would the consumption of sheepmeat and bovine meat. Meat demand would normally also be boosted by an expected economic recovery in the Community. As a result, in the medium term,

EC bovine meat consumption would, at worst, stabilize at around 22 kgs. per capita. He expressed his concern at the rising level of exportable surpluses in certain countries provoked by falling domestic demand and reduced consumption. Such surpluses, occurring at a time of herd rebuilding in some of these countries' main markets could result and in some cases were already resulting, in market access restrictions.

27. With reference to the reduction of meat production in Eastern and Central European countries' large state owned firms, the Polish representative indicated that Poland was probably not the most representative country in the region in this respect. Already in late 1970s, about 70 per cent of the land in Poland was in private hands, a substantially different situation from other countries. Indeed, the role of state owned large farms had always been very minor in his country.

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

28. No written questions had been submitted in accordance with established guidelines. The Australian delegate indicated that the fact that there were no questions regarding national policies did not necessarily mean that there were no trade problems. Some of the contentious issues had probably been resolved or were at the process of being resolved as part of the Uruguay Round outcome. As an example, Australia was still discussing agreements with four of its largest markets.

29. In reply to one oral question, the US representative indicated that the Uruguay Round Agreement on the Application of Sanitary and Phytosanitary Measures (SPS) referred to the International Office of Epizootics (OIE) which established guidelines for the recognition of disease free status for countries with Foot and Mouth disease (FMD), including countries free of FMD with vaccination. The United States was a strong supporter of the SPS Agreement, and was also the author of the regional approach to recognition of disease free areas, meaning that particular parts of countries could be recognized as disease free and receive authorization from the OIE to ship product. This was not the current practice in the area of meat trade or in the area of plant health. The US did intend to follow the procedures of the OIE, which currently did not favour exports taking place from countries that are using vaccination. However, the US participated at a very high level in the OIE and intended to abide by the disciplines of the SPS agreement in this regard.

Examination of the functioning of the Arrangement

30. The Chairperson recalled that in its informal meeting held on 18 January 1994, participants had received a checklist of issues prepared by the Secretariat which included a number of issues not requiring discussion or decisions before the Marrakesh Ministerial meeting. Nonetheless, the IMC should sooner or later address those issues. Some of them, such as the relationship between the IMC and the future Committee on Agriculture would obviously have to be addressed once the terms of reference of the Committee become clearer. However, procedural matters were independent of the negotiating process and should be dealt with at a certain stage. These included for instance the format of the questionnaires: was there a need for quarterly data? Should producer and/or retail prices be converted into a common currency? Was there a need to go back five years at each reply? Did participants need more or different information? Could forecast questionnaires be improved and become a more regular part of the market outlook review exercise? Could the discussions on policy issues be revived? Other issues included the structure of the meetings. Did it need to be changed? Should statistics be available in advance of the meetings? Was the oral report of the Chairman of the MMAG really necessary? Should it be replaced by a written report available before the Council meeting? Participants should start thinking about these questions and be prepared to address them possibly at the special IMC meeting to be held in February.

31. The New Zealand representative indicated that discussions on the terms of reference for the Committee on Agriculture would not begin until the second half of 1994. How that Committee would relate to the Dairy Council and Meat Council would probably not be addressed before. Maybe the IMC would not remain an independent body from the Agriculture Committee, maybe it would become a sub-committee of that Committee. What would the monitoring requirements of the Agriculture Committee be, in general and in particular in the beef sector? He noted that the IMC special meeting in February would have to address the textual changes in the Arrangement required by the Marrakesh meeting. Finally, he believed that wider issues would have to be addressed at a later stage.

Date of the next meeting

32. The IMC decided to hold its next meeting on Friday 24 June 1994, preceded by the meeting of the MMAG on Wednesday, 22 June, and Thursday, 23 June 1994.