INTERNATIONAL MEAT COUNCIL

The Instability of World Beef Markets

In accordance with the proposal to submit written contributions in advance of the June 1983 meeting on the subject "the instability of world beef markets" agreed to by the International Meat Council at its December 1982 meeting, the following note has been submitted by Australia.
INSTABILITY IN WORLD BEEF TRADE

1. Description of the problem

International trade in beef over the past decade has been unstable, particularly in terms of prices and access to particular markets. The amplitude and frequency of changes in world prices has created particular difficulties and uncertainties for producers in countries such as Australia which are heavily dependent on world trade, and has not encouraged the best use of resources. A common response by many importing countries to the problem of agricultural instability, and in particular instability in the livestock sector, has been to insulate their own producers and as a result to transfer the problem to producers in the exporting countries. This is unfortunate, and the challenge that should be addressed by the I.M.C. is of recommending means of reducing global instability and uncertainty in the beef sector to the benefit of producers and consumers.

2. Causes of instability

The demand for meat is very income and price responsive, and it has been estimated for example that a fall (or rise) of 1 percent in beef prices in the United States results in a rise (or fall) of 1 percent in beef consumption in that country. The level of beef consumption in developed countries is closely related to levels of disposable income, which in turn reflect economic activity and growth. The depressed and unpredictable economic environment of the past decade has contributed to weaker and more uncertain demand prospects for beef and this has been reflected in trade.

A further destabilising factor in the world beef trade is the fact that the volume of beef traded represents only a small proportion of world production (11 percent in 1982). This means that changes in the import policy in a major importing area can have a considerable effect on the volumes and prices of traded beef. Likewise, relatively small (in terms of per capita) changes in consumption levels in, for example, the U.S. and Japan have an important impact on trade. Furthermore, most of the major importing countries have a high degree of self sufficiency so that even small changes in their production and consumption have a magnified effect on international trade (for example the EEC has traditionally been a net importer but a 10 percent increase in production between 1978 and 1980 resulted in it becoming a net exporter capturing 15 percent of world beef trade by the end of 1980).

There is no doubt that protectionism and government intervention has played a major role in contributing to instability in world beef trade. The livestock industry in many industrialised countries, particularly in the EEC and Japan, is relatively high cost requiring substantial government support and protection. As a result, the level of trade and trade opportunities are very much smaller than they would otherwise be. This also has a depressing effect on prices and adds to instability as
exporters compete for a reduced market. The problem is further worsened by arbitrary and sudden changes in import arrangements (e.g. Japan, and the EEC in the mid 1970's). The net effect of measures by importing countries to support their beef producers (EEC and Japan) or to stabilise domestic markets (U.S. and Canada) has been to transfer the instability problem to international beef trade.

The most recent and important manifestation of countries transferring domestic problems to the international arena can be seen in the practice of export subsidisation. In both the EEC and Sweden, high support measures have resulted in excess production which has in turn been exported, with the assistance of large subsidies. This activity has further weakened world beef prices and added to the uncertainty of international beef trade.

A further destabilising factor is the long lead time involved in beef production. This has contributed to instability in the sense that the level of beef production is often inversely related to prices, at least in the short term. As a result very large exportable surpluses have often occurred at a time of low prices.

Finally increasing competition over recent years from other meats, especially poultry, has tended to erode beef's share of the world meat market and to further add to the problems of instability.

3. Effect of instability

Because producers in the major importing countries are insulated from market forces, the main effects of instability are borne by the producers in the exporting countries. Excessive and unpredictable fluctuations in prices coupled with arbitrary and sometimes drastic changes in access arrangements to major markets causes a non-optimum use of resources by farmers who have alternative production possibilities in exporting countries. The instability of international markets encourages an exaggerated and lagged production response in exporting countries (because of the long lead time involved in beef production), which in turn tends to further accentuate the volatility of international trade and prices. For example in Australia, beef production rose to a peak of 2.2 M tonnes in 1979 partly in response to high prices and strong international demand in the early seventies. However, significantly lower prices in the mid to late seventies coupled with the sudden closure or contraction of some important markets triggered a major progressive decline in the industry with output falling to an estimated 1.4 M tonnes in 1983. Changes of this magnitude tend to result in a serious misallocation of resources imposing serious hardship on producers.

While it is apparent that some of the factors causing instability in beef trade are inherent in the nature of the product itself (lagged production response, elastic demand etc) it is also clear that national policies have a major impact. In this respect the various import restrictions in the major
northern hemisphere countries, and more recently the export subsidies of the E.C., are important. Largely as a result of these policies, instability and uncertainty have been a feature of world trade in the seventies. The I.M.C. could play a valuable role if agreement could be reached amongst participants on ways and means of reducing this instability.