GLOBAL BEEF LIBERALISATION

Magellan Project Phase 3

What the WTO Doha Round proposals mean

A study prepared for the
Five Nations Beef Group

Final Report

February 2003
FOREWORD

The World Trade Organization (WTO) Doha Round of multilateral trade negotiations presents an opportunity for further substantial trade liberalisation. An agreed outcome on agriculture is a necessary condition for the success of the Round. The WTO negotiations on agriculture are at a critical stage. Most of the major players have put forward negotiating proposals to the WTO that state how and to what extent (the so called ‘modalities’) protection should be reduced. The next stage will involve intense negotiations under tight deadlines.

In the European Union, Japan and South Korea, beef is one of the most protected agricultural commodities, and liberalisation of the beef market would substantially benefit major beef exporters. Beef producers in Australia, Canada, Mexico, New Zealand and the United States (the ‘Five Nations’) have, for the first time, collaborated to undertake sector-specific research to estimate the gains from further liberalisation of the global beef market. The joint study has been named the ‘Magellan Project’.

This report is the final in the Magellan series and focuses on analysing the gains from implementation of the various reform proposals. These include proposals from the Cairns Group, the United States, the European Union and Japan.

The results reported here make use of the Global Meat Industries model which is supported by Meat and Livestock Australia. The analysis was undertaken by the Centre for International Economics (CIE), Canberra, with financial support from the Five Nations.
ACKNOWLEDGMENTS

This report has been prepared by George Reeves, Derek Quirke and Andrew Stoeckel from the CIE. Kirsten Oliver from the CIE deserves praise for typing and editing the manuscript.

The helpful comments of representatives of the Five Nations on drafts of this report are gratefully acknowledged.
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ABBREVIATIONS

AMS  Aggregate measure of support  
BSE  Bovine spongiform encephalopathy  
CAP  Common Agricultural Policy  
CIE  Centre for International Economics  
Five Nations  Australia, Canada, Mexico, New Zealand and United States  
FMD  Foot and mouth disease  
GMI  Global Meat Industries  
MLA  Meat and Livestock Australia  
OECD  Organisation for Economic Cooperation and Development  
PSE  Producer support estimate  
WTO  World Trade Organization
MAJOR FINDINGS

Beef is one of the most protected commodities in world trade.

- The European Union (EU), Japan and South Korea account for around 87 per cent of total support to beef farmers in member countries of the Organisation for Economic Cooperation and Development (OECD). The European Union alone accounts for 78 per cent of this total support.

- In the agricultural negotiations of the World Trade Organization (WTO) Doha Round, beef must be a priority area.

The Cairns Group and United States (US) negotiating proposals for agricultural reform would deliver greater gains to the world’s beef exporters than the proposals advanced by the European Union (EU) or a repeat of the Uruguay Round outcome (the preferred Japanese position).

- The gains to beef producers in exporting countries from the proposals are shown in chart A.

- The major beef exporters of South America, North America and Oceania stand to gain US$ 2.3 billion and US$3.0 billion in producers’ profits from the US and Cairns Group proposals respectively.

- Developing-country beef exporters in South America stand to gain up to US$1.9 billion — or over 60 per cent of this total gain.
**A Absolute annual gains to beef producers in exporting countries resulting from proposals for trade reform:**

Increases in producers’ profits (producer surplus) in 2005

Source: GMI results.
The Cairns Group proposal is somewhat better for developing countries in South America than the US proposal, and both are substantially better for these countries than the EU proposal.

For beef, the European Union’s expressed desire to help developing countries would be best served by adopting either the Cairns Group or US position.

Stuart Harbinson, Chairman of the special negotiating session of the WTO Committee on Agriculture, has recently released his personal ‘first attempt’ at a compromise ‘to identify possible paths to solutions’.

His suggested modalities are closer to the EU position than the Cairns Group or US positions.

In general, lowering tariffs and expanding tariff quotas is more important to world beef markets than is the removal of trade-distorting domestic subsidies or export subsidies, but there are differences between countries:

- For South American exporters, removal of export subsidies (used only by the European Union) and trade-distorting domestic support is as important as reform of border protection.
- Removal of tariffs is most important to US and Canadian producers. Expansion of tariff quotas has an adverse effect on US beef producers’ returns because of the US beef tariff quota.
- Removal of tariffs and the expansion of tariff quotas are most important for Australia and New Zealand.
- The three pillars of reform — market access, domestic supports and export subsidies — are interrelated. Changing support in one area has implications for support in the other areas.
The political economy in countries that provide protection to their beef industries is changing. Other analysis undertaken under the Magellan Project shows:

- There is now greater awareness by consumers in the European Union of the adverse consequences of the Common Agricultural Policy (CAP) and the need for substantial reform — both a reduction in protection and a major shift away from market-distorting support measures.

- Major restructuring of the entire supply chain in the European Union has occurred as a result of the outbreak of bovine spongiform encephalopathy (BSE or ‘mad cow disease’).

- Moving to mostly tariffs, as the method of protecting beef in Japan and South Korea, has led to restructuring and a more commercial orientation of their industries with more emphasis on product differentiation.

- Resistance to change in protection for the beef industry is probably greatest in France, but even there, support is waning under the weight of commercial pressure, fewer and older farmers and a rift that has opened between farmers’ trade unions. Consumer groups have also faltered in their degree of acceptability of support for beef producers in the wake of the BSE outbreaks.

**Reforming world beef trade delivers greater choice for consumers.**

- Trade reform will enhance competition, improve production efficiency, and encourage higher quality, safer products. It will also save taxpayer funds.
1 BACKGROUND

Beef remains one of the highly protected products in key markets. Trade in beef is restricted by this protection. The Magellan Project is a cooperative effort between the five nations of Australia, Canada, Mexico, New Zealand and the United States (‘Five Nations’). Its focus is on pointing the way forward in liberalising world beef trade — quantifying the benefits of reducing protection and identifying avenues for reform.

This is the final report in a series that has analysed various aspects of beef trade liberalisation.

- Phase 1 examined the implications of reducing tariffs and tariff barriers (MLA 2001).
- Phase 2 focussed on the gains from reducing production and export subsidies (MLA 2002) and analysed the political economy of beef reform (CIE 2003).

This report draws together the various threads of these previous reports as well as analysing the implications for beef of the various country proposals for agricultural trade reform that have been put forward for the WTO Doha Round.
State of play in the Doha Round

Trade ministers from WTO member countries met in Doha, Qatar, in November 2001 and agreed to launch a new multilateral trade round. This set the scene for effective negotiations on agriculture which had been proceeding in isolation for the previous two years, but had made little progress. Significantly, it was agreed at Doha that all areas of negotiations must be agreed to for any of the negotiated outcomes to be binding (WTO 2001a). This puts considerable pressure on WTO members to reach agreement on the difficult area of agriculture.

The Doha Ministerial Declaration is encouraging in its objectives for agriculture. These are to achieve

- substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and
- substantial reductions in trade-distorting domestic support.

Most of the major players in world agricultural trade have put forward negotiating proposals to the WTO on how and by how much (the so-called ‘modalities’) protection should be reduced. These include the Cairns Group1, the United States (US), the European Union (EU) and Japan. Canada has also put forward a proposal separately from the Cairns Group (WTO 2000).

In addition to the EU proposal submitted to the WTO in Geneva in late January 2003, the European Commission has also recently published a package of proposals to reform the CAP. These proposals have not been officially endorsed by EU Ministers, but they do provide good indications of the directions of CAP reforms. The thrust of these proposals is to move in the direction of providing

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1 Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Paraguay, Philippines, South Africa, Thailand and Uruguay.
‘decoupled’ support\(^2\), or direct assistance to farmers — with some compliance provisions — rather than support to farm products which is trade-distorting.

Stuart Harbinson, Chairman of the special negotiating session of the WTO Committee on Agriculture, submitted his first proposal for establishing modalities for the agricultural negotiations. As he states,

> this represents no more than a first attempt to identify possible paths to solutions. It does not claim to be agreed in whole or in any part and is without prejudice to the positions of participants. (Committee on Agriculture 2003)

The next step will be a period of intense negotiations in an attempt to reach agreement on the modalities by the end of March 2003. Detailed country schedules for reduction commitments, consistent with the agreed modalities, are due by September 2003 when the fifth WTO Ministerial Meeting will be held at Cancun in Mexico. The Doha Round is scheduled for completion by January 2005.

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\(^2\) ‘Decoupled’ policies are those that do not distort the pattern of production, consumption and trade, even though it can be argued that all supports to farmers eventually change the incentive to produce, albeit some to a greater extent than others.
2 WHAT MATTERS MOST — BORDER RESTRICTIONS OR SUBSIDIES?

Understanding how beef markets respond to reductions in the various types of protection is critical for determining where negotiating efforts should be concentrated. Should negotiators aim to achieve greater reductions in tariffs as against domestic supports? What are the implications of eliminating export subsidies? And how are changes in various forms of support inter-related? Many of these issues have been addressed in previous reports in this Magellan series. This chapter draws the various threads from these reports together and goes further in assessing the implications for beef of reforms in sheepmeat and the intensive meat industries — pigmeat and poultry — which are close substitutes for beef.

World beef trade — a sketch

Chart 1 summarises the key characteristics of the world beef market. The United States followed by the European Union are the largest beef producers and together account for a third of world beef production. The Five Nations together account for 29 per cent of world beef production, and 48 per cent of world beef exports.
Global beef trade is segmented into an ‘Atlantic’ market and a ‘Pacific’ market. The Pacific market mainly comprises Japan, South Korea, other East Asian and South East Asian markets, the United States, Australia and New Zealand. The Atlantic market mainly comprises countries of the European Union, North Africa, the Middle East and Latin America. Countries trading in the Atlantic market are geographically closer, have historical trade links and tend to be affected by foot and mouth disease (FMD). Mostly, they have been denied access to the FMD-free and generally more lucrative Pacific market. At times, there are
exceptions to this general trade pattern, but, overall, Australia, New Zealand and the United States tend to concentrate their exports in Pacific markets, particularly Japan and South Korea, while South American countries concentrate on European, North African and Middle East markets. A high proportion of EU exports compete with South American beef exports in the North African and Middle East markets. Access to the European Union by Pacific market exporters is restricted by tariff quotas and the requirement to be free from hormone growth promotants, but not by any disease issues.

Over the past decade, global beef trade grew by less than 1 per cent a year, whereas world pigmeat and poultry trade grew by 19 per cent and 13 per cent per year respectively (GMI database). Over the same period, global beef production grew by only 0.8 per cent a year, whereas pigmeat and poultry production increased by 2.6 per cent and 5.1 per cent per year respectively. Clearly, beef has been rapidly losing its share of the global meat market. A major contributor to this loss is the higher relative price of beef. In the main protected markets, higher levels of protection have been afforded to beef compared to pigmeat or poultry. An exception is the high level of protection provided to the pigmeat industry in Japan. The relatively higher price for beef is in part also a result of the more intensive methods of production and faster genetic improvement for pigmeat and poultry. But the higher price for beef indicates that consumers consider the product to be superior to pigmeat and poultry, which begs the question of why deny consumers more choice to purchase lower-priced quality product?
Protection is still high

<table>
<thead>
<tr>
<th>Protection in the global meat markets — producer support estimates</th>
<th>1986-88 (^a)</th>
<th>1999-2001</th>
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</thead>
<tbody>
<tr>
<td>Beef</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
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<td>33</td>
<td>35</td>
</tr>
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<td>European Union</td>
<td>59</td>
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<td>32</td>
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<tr>
<td>South Korea</td>
<td>54</td>
<td>63</td>
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<tr>
<td>Five Nations (^b)</td>
<td>8 (^c)</td>
<td>5</td>
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<tr>
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<td>European Union</td>
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<td>South Korea</td>
<td>33</td>
<td>32</td>
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<tr>
<td>Five Nations</td>
<td>4 (^c)</td>
<td>6</td>
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<tr>
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<td>16</td>
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<td>European Union</td>
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<td>South Korea</td>
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<tr>
<td>Five Nations</td>
<td>20</td>
<td>4</td>
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<tr>
<td>Sheepmeat</td>
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<tr>
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<td>61</td>
</tr>
<tr>
<td>Five Nations</td>
<td>12</td>
<td>6</td>
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</table>

\(^a\) The start of the Uruguay Round. \(^b\) Simple averages across the Five Nations. \(^c\) Excluding Mexico which had substantial taxes on beef and pigmeat producers.


Table 2 summarises levels of protection in the meat market. For the OECD as a whole, beef protection is as high now as it was at the start of the Uruguay Round in 1986. During that Round’s implementation period, from 1995 to 2000,
beef protection also trended upwards (CIE 2003). Protection in the pigmeat and poultry sectors is generally much less, but for pigmeat, the trend has also been upwards. The European Union, Japan and South Korea are the main protectionist countries in the world beef market. Beef protection in the European Union is exceptionally high and has increased substantially. Government expenditures to combat BSE and FMD in recent years have added to measured protection levels, but even without taking that into account, beef protection in the European Union has trended strongly upwards. Beef protection in South Korea has also increased since the late 1980s. By contrast, the significant reforms in Japan, where import quotas were replaced with tariff-only protection, have resulted in a decline in protection levels.

The European Union has substantially increased protection to the intensive meat industries, but there has been some reduction in South Korea. In all cases except Japanese pigmeat, the intensive meats receive less protection than the beef sector.

For many years, the European Union, in particular, has indicated a desirability to shift the nature of its support more towards direct producer payments or ‘decoupled’ support (Commission of the European Communities 2002). Chart 3 shows that while there has been some progress in this area, there is still a long way to go. In the European Union, over 50 per cent of support is market price support. This proportion is much higher in Japan and South Korea which now rely mostly on tariff protection. Details of the various mechanisms of support are set out in the Magellan Phase 2 report (MLA 2002).
2 WHAT MATTERS MOST
— BORDER RESTRICTIONS OR SUBSIDIES?

3 PSEs and market price support for major beef importing countries, 1990 and 2001

<table>
<thead>
<tr>
<th>Country</th>
<th>1990</th>
<th>2001</th>
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<tbody>
<tr>
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<td></td>
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<tr>
<td>South Korea</td>
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<td>United States</td>
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<td>Canada</td>
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Producer support estimates:

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<th>Country</th>
<th>1990</th>
<th>2001</th>
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<tbody>
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<td>50</td>
</tr>
<tr>
<td>South Korea</td>
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<tr>
<td>Canada</td>
<td>20</td>
<td>30</td>
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</table>

Absolute market price support (US$m):

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<tr>
<th>Country</th>
<th>1990</th>
<th>2001</th>
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<tbody>
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<td>500</td>
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<tr>
<td>Canada</td>
<td>1000</td>
<td>2000</td>
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</table>

Proportion of market price support in total support (%):

<table>
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<th>Country</th>
<th>1990</th>
<th>2001</th>
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<tbody>
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<td>90</td>
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<td>South Korea</td>
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<td>United States</td>
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<td>10</td>
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<tr>
<td>Canada</td>
<td>20</td>
<td>30</td>
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</table>

Source: OECD.
Interrelationships between the three pillars of reform

Breaking protection for agricultural industries into the three main pillars of support — market access barriers, domestic supports and export subsidies — is now well recognised. Much effort went into reducing support in each area in the Uruguay Round. The Doha Round has extended this framework and proposals for further reduction in protection have been submitted under these three pillars. But classifying protection into these three categories gives the false impression that each can be negotiated separately without implications for support given under the other pillars. That is not the case — support offered under each of the pillars is interrelated and must be considered in assessing the effects of liberalising trade. The various types of support to beef producers are shown in stylised form in chart 4, taken from the Magellan Phase 2 report (MLA 2002).

In the beef market, tariffs and tariff quotas, in effect, impose taxes on consumption so that the overall market shrinks — higher retail prices mean less consumption. Beef producers in protected countries gain not only from higher domestic prices as a result of border protection, but also from direct and indirect government payments under domestic support arrangements. This domestic support enhances domestic production, but at the same time, stifles innovation and productivity improvements. As seen earlier, the productivity of beef is important because beef competes with other meats — pigmeat and poultry — which have higher productivity levels, but generally lower protection levels. Higher productivity means retail prices of the other meats can be lower so that consumers shift their purchases more towards pigmeat and poultry and away from beef.
Greater domestic production, together with reduced consumption, significantly reduces the opportunities for imports. This results in lower world prices and substantial cost burdens on exporters, especially those in developing countries. Export subsidies paid to exporting firms in the protectionist countries attempt to bridge the gap between world prices and higher domestic prices, but are often targeted at particular markets. This shifts product from domestic to export markets and further depresses world prices. Of course, the greater the levels of overall protection, the greater the distortions to world trade and burdens on consumers and taxpayers in the protectionist countries.
The three pillars of protection are interrelated. A reduction in tariffs or increase in tariff quotas will lower internal market prices and simultaneously reduce the need for export subsidies. With internal market prices reduced, consumption expands and domestic production falls, if there are no compensating direct payments to producers. This creates increased demand for imports and stimulates world trade.

Reductions in domestic support act to reduce domestic production which in turn raises internal prices, assuming maintenance of high border protection. In this case, consumption falls, but there is, nevertheless, greater demand for imports. If prohibitive and binding tariff quotas apply, profits from within-quota imports will be greater and will mostly be captured by exporters, but import volumes will not change. But to the extent that internal prices are higher, there is greater pressure to increase export subsidies.

The European Union is the only country which applies beef export subsidies. Removing these without changing anything else would make it difficult for EU exporting firms to compete globally. This would mean a significant shift in beef from exports to the domestic market which would put downward pressure on internal prices and tend to increase domestic consumption. Globally, reduced EU exports would increase the competitiveness of other exporters, particularly from South America — players in the Atlantic market.

The key point is that reductions in tariffs also reduce the need for export subsidies, and create enhanced import opportunities through higher domestic consumption and lower production. This makes market access the key target for reform, although the other elements need to be reformed simultaneously.
Quantifying the effects of removing the three pillars of support

As in previous Magellan reports, the Global Meat Industries (GMI) model is used to quantify the effects of various reform scenarios. This model and the base case used are outlined in the Magellan Phase 2 report.

Charts 5 and 6 show the annual gains to beef producers in exporting countries from removal of market access barriers, export subsidies and trade-distorting domestic support in isolation and together. The domestic support removed is that classified as ‘amber’ or ‘blue’ by the WTO. The estimates shown in chart 5 provide important broad insights into the real dollar gains, by country, of reforms in the various pillars of protection. Taken in isolation, they are unrealistic scenarios in that it is highly unlikely that only tariffs or only domestic supports, for example, would be completely removed.

In absolute terms, it is apparent that Brazil, followed by the United States and then Australia, would be the big gainer from elimination of all forms of protection. The countries in the Pacific market — the United States, Canada, Australia and New Zealand — would gain relatively little if reforms concentrated only on domestic supports or export subsidies. For these countries, the big gains come from elimination of market access barriers.

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3 In WTO language, the wide range of subsidies and support mechanisms provided to producers are classified into so-called ‘amber’, ‘blue’ and ‘green boxes’. Subsidies in the ‘amber box’ are the most production- and trade-distorting, and include those which are directly linked to current prices or production. Subsidies in the ‘blue box’ include those which are somewhat less production- and trade-distorting, such as payments made on a fixed number of head, or on 85 per cent or less of the base level of production. ‘Green box’ subsidies are regarded as minimally production- and trade-distorting. In OECD language, ‘market price support’ includes any measures which raise internal prices above world prices, plus direct production subsidies (that is, ‘amber box’ subsidies). ‘Direct income support’ includes ‘blue’ and ‘green box’ subsidies.
### Absolute annual gains to beef producers in exporting countries from removal of various forms of protection:

Increases in beef producers’ profits (producer surplus) in 2005

<table>
<thead>
<tr>
<th>Country</th>
<th>Export subsidies</th>
<th>Domestic support</th>
<th>Tariffs only</th>
<th>Tariff quotas only</th>
<th>All market access barriers</th>
<th>All trade-distorting protection</th>
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</thead>
<tbody>
<tr>
<td>United States</td>
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<td>Australia</td>
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<td>Argentina</td>
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<td>Uruguay</td>
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<td>Paraguay</td>
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<td>New Zealand</td>
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</table>

Source: GMI model.
Relative annual gains to beef producers in exporting countries from removal of various forms of protection:
Percentage increases in beef producers’ profits (producer surplus) in 2005 relative to total beef industry profits for each country

Source: GMI model.
This reflects the substantial tariffs on beef imports into South Korea and Japan and the gains to exporters from their removal. Here, too, there are differences between countries. The United States would gain most from removal of tariffs only. But it would lose from elimination of tariff quotas because US producers also benefit from US tariff quotas on beef imports. The same applies to Canada. But removal of tariffs and tariff quotas taken together means that the United States is a big gainer.

For Australia, about half the gains from removal of market access barriers would come from removal of tariffs only, with the other half coming from removal of tariff quotas. The latter reflects the removal of US, Canadian and EU tariff quotas.

A different situation emerges for the South American countries. They stand to gain relatively much more from removal of export subsidies and, to a lesser extent, trade-distorting domestic supports than from removal of border protection. Argentina, Uruguay and Paraguay, for example, would gain as much from removal of EU export subsidies as they would from elimination of market access barriers. The reason for this is that removal of export subsidies would significantly reduce EU exports and hence competition with South America in North African and Middle East markets.

For similar reasons, the South American countries would gain relatively more from removal of EU domestic support arrangements than exporters in the Pacific market. EU production would fall, meaning smaller EU exports and less competition for South America in third countries.

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4 Canada has not applied tariff quotas although they are legally able to. Hence, for Canada, the estimated gains from removal of all market access barriers understates the true gains to Canada.
In terms of gains relative to the total profits from beef production in each country, Australia stands out as the biggest gainer from removal of all forms of protection (chart 6). Producer profits would increase by nearly 30 per cent. The South American countries would also be big gainers, but US and Canadian producers would experience increases in producer profits of only 4 per cent or less. The pattern of gains from the removal of various pillars of protection is nevertheless similar to the picture for absolute gains shown in chart 5.

**The effects of including pigmeat, poultry and sheepmeat**

The analysis so far has examined changes in beef protection in isolation — that is, there is an implicit assumption that there are no changes to protection levels of the other meats. The GMI model enables relaxation of this assumption and examination of the situation where liberalisation applies to all meats.

Chart 7 compares two scenarios. One is where a ‘beef only’ approach is taken in examining the complete removal of all forms of protection. The other is where protection to all meats is removed.

In general, the error in taking a ‘beef only’ approach to the analysis of trade effects on beef is not great. The pattern of responses is the same and the error margin is mostly under 6 per cent on estimates of changes in beef producers’ profits. Brazil is an exception, where a ‘beef only’ approach underestimates the gains from liberalisation by over 25 per cent. It is also apparent that a ‘beef only’ approach overestimates the gains for Australia and New Zealand, but underestimates the gains for the other exporters.
There are complex interactions between the different types of meats, mainly because consumers can readily shift their meat purchasing behaviour depending on relative changes in prices of the various meats. When liberalisation applies to all meats, the relative price changes between beef and the other meats are less than for a ‘beef only’ approach. In protectionist countries, the adjustment in beef consumption is therefore less and this translates into smaller implications for trade and smaller rises in world trade prices for beef. Hence, the estimated gains to Australian beef producers are smaller (Australia exports relatively little pigmeat or poultry).

For a country such as Brazil, however, the final response of beef producers’ profits to removal of protection is influenced by two factors — the change in world beef prices (which translates into a similar change in Brazilian domestic beef prices), and the change in world poultry and pigmeat prices and how this, through Brazilian domestic price changes, influences the Brazilian domestic beef market. The first factor is the same in Brazil as it is in
Australia. But for the second factor, because Brazil is a large producer and exporter of pigmeat and poultry, removal of all forms of protection significantly increases the world price of these meats and hence prices in the Brazilian domestic meat market. Through consumer substitution effects, this has a strong positive effect on Brazilian domestic beef prices. Thus, in Brazil where pigmeat and poultry meat production and exports are important, analysis of trade liberalisation using a ‘beef only’ model will tend to underestimate the effects of trade liberalisation.

In the next chapter, the various country negotiating proposals are evaluated by applying the proposed modalities to all meats.
3 EVALUATION OF PROPOSALS FOR TRADE REFORM

The various Doha Round proposals are summarised in table 8. In brief, the US and Cairns Group positions are the most ambitious and are similar. The United States has also formally called for the agreement of a date by which all tariffs are eliminated. The Cairns Group proposal calls for more substantial expansion of tariff quotas than that of the United States. The proposal has been negotiated among the members of the Cairns Group and is a genuine attempt to reform world agricultural trade. It is not an ambit claim.

Japan and, to a lesser extent, the European Union are at the other end of the spectrum: Japan’s proposal stresses the importance of ‘multifunctionality’ of agriculture, and food security. But it has no specific proposals on modalities. Japan has indicated that it would support reforms equivalent to a repeat of the Uruguay Round. The EU proposal calls for modest cuts in tariffs, export subsidies and domestic support which is trade-distorting.

Stuart Harbinson’s paper (Committee on Agriculture 2003) was released in mid February 2003 and is summarised in box 9. The First Draft of Modalities for the Further Commitments paper incorporates the idea of deeper cuts for the highest tariffs, but falls well short of the Cairns Group and US positions. Beef is a sensitive commodity in protectionist
3 EVALUATION OF PROPOSALS FOR TRADE REFORM

countries, and whilst tariff cuts for beef under the Harbinson proposal would mostly be 35 per cent, it is an improvement on the mere 15 per cent cuts under the EU proposal.

| 8 Summary of proposals for WTO negotiations on agriculture |
|---|---|---|
| **Cairns Group** | **Export subsidies** | **Market access** | **Domestic support** |
| | Complete elimination of export subsidies | Reduce developed-country tariffs to 25% or less by applying the Swiss formula\(^a\) | On a product-specific disaggregated base, reduce to zero all current AMS\(^b\) commitments over 5 years (9 years for developing countries) |
| | 50% reduction in the first year | Expand developed-country tariff quotas by adding 20% of domestic consumption | Eliminate ‘blue box’ exemptions (Article 6.5)\(^c\) |
| | | Improve tariff quota administration to ensure existing and new market access opportunities can be fully utilised | Cut ‘amber’ subsidies by 50% in first year for developed countries followed by equal annual cuts to reach zero |
| | | Lower tariff reduction and lower tariff quota expansion phased in over 9 years for developing countries | Reduce and eventually eliminate de minimis\(^d\) provisions for developed countries, but retain for developing countries |
| | | | Strengthen disciplines to ensure reductions in trade-distorting support are substantial and effective |
| **United States** | Eliminate export subsidies over 5 years in annual increments | Swiss formula applied to tariff reductions with no tariff line greater than 25% after 5 years | Classify domestic subsidies as trade-distorting or non-distorting |
| | | Eventual elimination of all tariffs by a date to be agreed | Trade-distorting support limited to 5% of total value of agricultural production, with reductions over 5 years |
| | | Expansion of all tariff rate quotas by 20% and elimination of quota duties over 5 years | Special allowances for developing countries |
| | | ‘Quota fill’ administration | |
| | | Elimination of special agricultural safeguard measures | |

continued on next page
Summary of proposals for WTO negotiations on agriculture continued

### Export subsidies

**European Union**
- Reduce budget expenditure on export refunds by 45% on average
- Complete removal of export subsidies for wheat, oilseeds, olive oil and tobacco
- Time frame is over 6 years for industrialised countries and 10 years for developing countries starting from 2006
- Disciplines on state trading and export credits

**Japan**
- Further reductions in export subsidies and volumes of subsidised exports
- Tarification applied to exports and reductions in export taxes
- More transparency on export state trading

### Market access

- Overall average reduction of 36% in tariffs with a minimum reduction of 15% per tariff line (as per Uruguay Round)
- Zero duty and quota-free access for least-developed countries
- No expansion of tariff rate quotas, but greater transparency and measures to ‘quota fill’
- Continuation of special agricultural safeguard provisions
- Protection of geographic indications

### Domestic support

- 55% reduction in the AMS — no change in AMS definition
- Domestic support in developing countries permitted for development objectives
- Abolition of de minimis clause

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Harbinson’s proposed reductions in export subsidy values and volumes would be based on a set formula. This would mean that within a five year period, there would be minimal effective disciplines on beef subsidies in the European Union.
3 EVALUATION OF PROPOSALS FOR TRADE REFORM

Union. In the longer term, this proposal is in line with the US and Cairns Group proposals to eventually eliminate export subsidies.

<table>
<thead>
<tr>
<th>9 Summary of Harbinson’s First Draft of Modalities for the Further Commitments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Export subsidies</strong></td>
</tr>
</tbody>
</table>
| ▪ 50% of export subsidies to be phased out over 5 years for developed countries and 10 years for developing countries | ▪ For developed countries, reduce tariffs in equal installments over 5 years:  
  - tariffs higher than 90% cut by 60% on average with minimum cut of 45% per tariff line  
  - tariffs between 15% and 90% cut by 50% on average, but at least by 35% per tariff line  
  - tariffs less than 15% cut by 40% on average, but at least by 25% per tariff line  
 | ▪ Remainder phased out over 9 years for developed countries and 12 years for developing countries | ▪ For developing countries, smaller tariff cuts phased in over 10 years  
  ▪ Expand tariff quotas to 10% of domestic consumption on average, with minimum expansion to 8% of consumption | ▪ Decrease AMS by 60% over 5 years for developed countries and 40% over 10 years for developing countries  
  ▪ Strengthen disciplines on ‘green box’ expenditures  
  ▪ Cap ‘blue box’ expenditures and reduce by 50% over 5 years |

Source: Committee on Agriculture (2003).

The GMI model was again used to assess the implications of the proposals in table 8 for the world beef market. The results for the major beef exporting countries are shown in table 10 (see also chart A under Major Findings) and are compared with the results for a scenario where there is complete removal of all forms of protection.

Key points to note are as follows:

▪ The South American countries are the big winners from the Cairns Group and, to a lesser extent, the US proposals.

▪ The gains from the EU proposal are significantly less than those from the Cairns Group or US proposals:
Absolute annual gains to beef producers in exporting countries resulting from proposals for trade reform
Increases in producers’ profits (producer surplus) in 2005

<table>
<thead>
<tr>
<th></th>
<th>Cairns Group</th>
<th>US proposal</th>
<th>EU Uruguay Round</th>
<th>Free trade</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>US$m</td>
<td>US$m</td>
<td>US$m</td>
<td>US$m</td>
</tr>
<tr>
<td>United States</td>
<td>584</td>
<td>559</td>
<td>369</td>
<td>197</td>
</tr>
<tr>
<td>Australia</td>
<td>388</td>
<td>376</td>
<td>93</td>
<td>65</td>
</tr>
<tr>
<td>Brazil</td>
<td>1434</td>
<td>889</td>
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<tr>
<td>Argentina, Uruguay, Paraguay</td>
<td>439</td>
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<tr>
<td>Canada</td>
<td>52</td>
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<tr>
<td>New Zealand</td>
<td>53</td>
<td>52</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>Mexico</td>
<td>51</td>
<td>50</td>
<td>34</td>
<td>30</td>
</tr>
</tbody>
</table>

Source: GMI results.

- this is particularly marked for the South American developing countries. For Brazil, for example, the EU proposal delivers only a quarter of the gains from the Cairns Group proposal; and

- also, Australia and New Zealand would receive much smaller gains from the EU proposal compared with the Cairns Group proposal.

- For the developing countries, in particular, a repeat of the Uruguay Round would deliver relatively small gains — just over 1 per cent gain in beef producers’ profits for Brazil and less than a 3 per cent gain for Argentina.

- For exporters in the Pacific market, the Cairns Group and (in the medium term) US proposals deliver quite similar gains — for example, around 70 per cent and 80 per cent for Australia and New Zealand respectively, of the gains from removal of all protection.
3 EVALUATION OF PROPOSALS FOR TRADE REFORM

Table 11 presents the *relative* gains in beef producers’ profits arising from implementation of the proposals. That is, the absolute gains as a proportion of total estimated producer profits (producer surplus).

<table>
<thead>
<tr>
<th>Country</th>
<th>Cairns Group</th>
<th>US proposal</th>
<th>EU proposal</th>
<th>Uruguay Round</th>
<th>Free trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>2.0</td>
<td>1.9</td>
<td>1.3</td>
<td>0.7</td>
<td>3.8</td>
</tr>
<tr>
<td>Australia</td>
<td>20.4</td>
<td>19.8</td>
<td>4.9</td>
<td>3.4</td>
<td>27.9</td>
</tr>
<tr>
<td>Brazil</td>
<td>12.6</td>
<td>7.8</td>
<td>3.0</td>
<td>2.3</td>
<td>13.9</td>
</tr>
<tr>
<td>Argentina, Uruguay, Paraguay</td>
<td>13.8</td>
<td>10.6</td>
<td>4.5</td>
<td>3.6</td>
<td>14.9</td>
</tr>
<tr>
<td>Canada</td>
<td>2.5</td>
<td>2.4</td>
<td>1.9</td>
<td>1.1</td>
<td>5.2</td>
</tr>
<tr>
<td>New Zealand</td>
<td>10.0</td>
<td>9.7</td>
<td>3.1</td>
<td>2.2</td>
<td>12.4</td>
</tr>
<tr>
<td>Mexico</td>
<td>2.2</td>
<td>2.2</td>
<td>1.5</td>
<td>1.2</td>
<td>3.7</td>
</tr>
</tbody>
</table>

*Source: GMI results.*

The key points to note are as follows:

- In relative terms, Australia would experience the largest gains from implementation of the Cairns Group or US proposal but would gain much less from the EU proposal or a repeat of the Uruguay Round outcome.
- The South American countries would also gain substantially from the Cairns Group and US proposals and they, too, would gain much less from the EU proposal or a repeat of the Uruguay Round outcome.
- The United States and Canada are not big gainers in relative terms.
What is driving the results

Compared to the EU proposal, the Cairns Group and US proposals call for much deeper cuts in all three pillars of protection. It is therefore not surprising that the gains from implementation of the Cairns Group or US proposal are much larger. But the differences are much greater for the South American countries, Australia and New Zealand, than for the United States or Canada.

Consider, first, the effects of the Cairns Group and EU proposals on the United States. The EU proposal does not call for any increases in tariff quotas. The Cairns Group, however, calls for a significant increase in tariff quotas. This has a negative impact on US beef producers which does not occur under the EU proposal. US beef producers gain from tariff cuts to a much greater extent under the Cairns Group proposal than under EU proposal. But under the Cairns Group proposal, this effect is partially dampened by the adverse effects of tariff quota increases.

For Australia, on the other hand, the greater cuts in tariffs and increase in tariff quotas under the Cairns Group proposal reinforce each other when compared to the EU proposal. Hence, there are very large differences between these proposals in their effects on Australian beef producers’ profits.

For the South American countries, the big differences in gains between the Cairns Group and EU proposals lies in the differences between the proposals in export subsidies and tariff quotas. The South American countries gain nothing from the EU proposal on tariff quotas (because it proposes no increase) and experience only half the gains from the EU proposal on export subsidies. South American countries are less affected by the differences between the proposals in tariffs, compared with the exporters in the Pacific market.
For the South American countries, particularly Brazil, there is a noticeable difference in gains between the Cairns Group and US proposals. This is mainly because the Cairns Group proposal implies a bigger expansion in tariff quotas than the US proposal. And the South American countries would gain more from a greater expansion in EU tariff quotas.
REFERENCES


— 2000, G/AG/NG/W/12, 19 June, Geneva.

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