

# **GLOBAL BEEF LIBERALISATION**

## **Magellan Project Phase 1**

### **State of play and who gains**

22 August 2001

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# CONTENTS

<b>Summary</b>	<b>v</b>
<b>1 What is happening to global beef trade?</b>	<b>1</b>
The outlook without further trade liberalisation	9
<b>2 Barriers to global trade in beef remain large</b>	<b>10</b>
Existing barriers	10
<b>3 How costly are the barriers?</b>	<b>12</b>
<b>4 Completing the story</b>	<b>15</b>
<b>A Barriers to global beef trade</b>	<b>17</b>

## **Boxes, charts and tables**

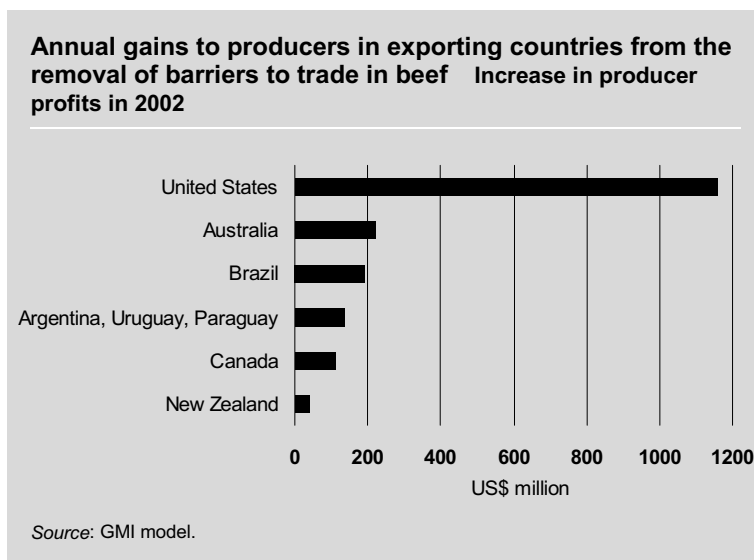
1 Global beef trade is rising slowly	2
2 Changing composition of global beef exports	2
3 Global trade in live cattle is falling	3
4 Beef remains expensive relative to competing meats (meat prices in the US)	4
5 Globally consumers are switching away from beef	4
6 In contrast to other meats global beef production is falling	5
7 Mature markets in major beef exporting countries	6
8 Growth in north Asian beef demand has been rapid	6
9 Beef imports have increased rapidly in Korea and Japan	7
10 Beef consumption is increasing steadily in some low income Asian markets	8

## CONTENTS

11	Barriers to beef are higher than for competing meats in many Asian countries	11
12	Annual gains to producers in exporting countries from the removal of barriers to trade in beef	14
13	Annual gains to consumers in importing countries from the removal of barriers to trade in beef	14
A1	Barriers to access in certain beef countries	17

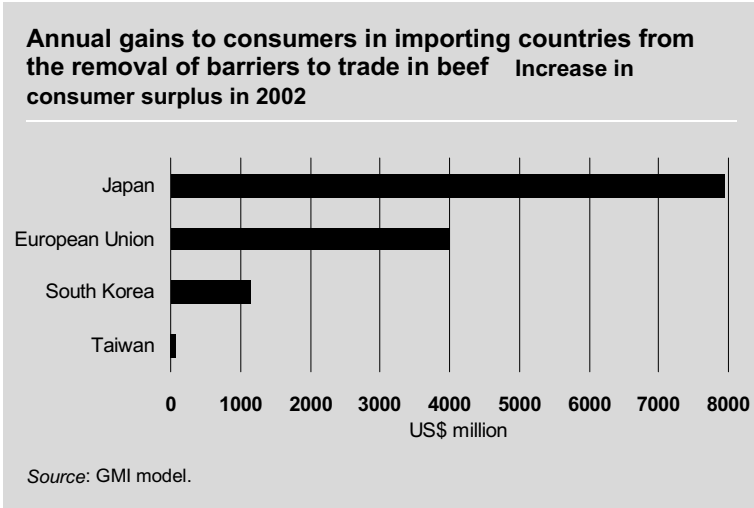
## SUMMARY

- Liberalisation of global trade in beef has the potential to deliver enormous gains to beef consumers in importing countries and beef producers in exporting countries.
- Analysis with a global model of beef production, consumption and trade suggests that removal of all barriers to global beef trade would deliver the following benefits to producers.



- The analysis also shows that beef consumers in importing countries would benefit as follows.

## SUMMARY



- The challenge ahead is how to bring about global beef liberalisation to ensure that these consumer and producer benefits are realised.

# 1 WHAT IS HAPPENING TO GLOBAL BEEF TRADE?

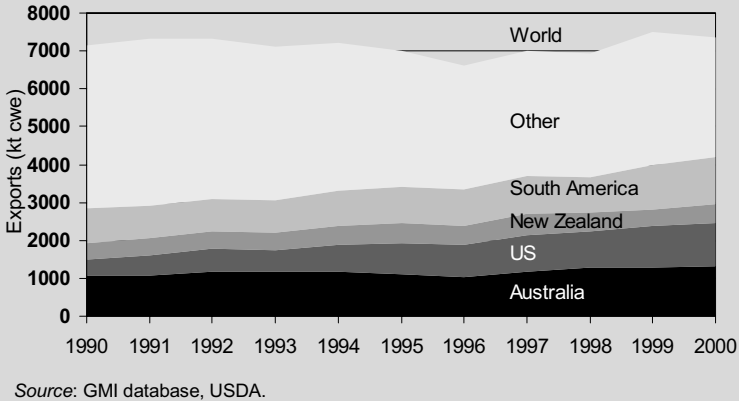
**A**fter growing by 46 per cent between 1985 and 1990, global beef trade grew by only 3 per cent between 1990 and 2000 (chart 1). Over the same period, the value of world output grew by 40 per cent and the value of world exports of all commodities grew by a staggering 84 per cent. The beef industry has been a lot less successful than other industries in sharing in the globalisation of the world economy.

But while aggregate beef trade growth has been disappointing, marked changes have taken place in the composition of this trade. The major low cost efficient exporting countries — the US, Australia and South American countries — have rapidly increased their beef exports at the expense of exports from subsidised regions such as the European Union (EU).

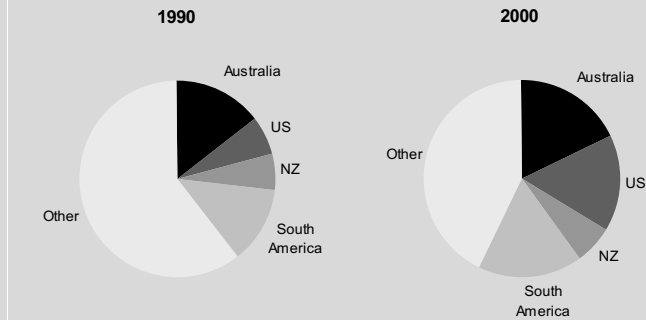
The US has been the star performer in export markets with a 150 per cent increase in exports between 1990 and 2000. Over the same period Australia's beef exports increased by 26 per cent while exports from South American countries (mainly Argentina, Brazil and Uruguay) increased by 37 per cent (chart 2).

# MAGELLAN PROJECT PHASE 1

## 1 Global beef trade is rising slowly



## 2 Changing composition of global beef exports

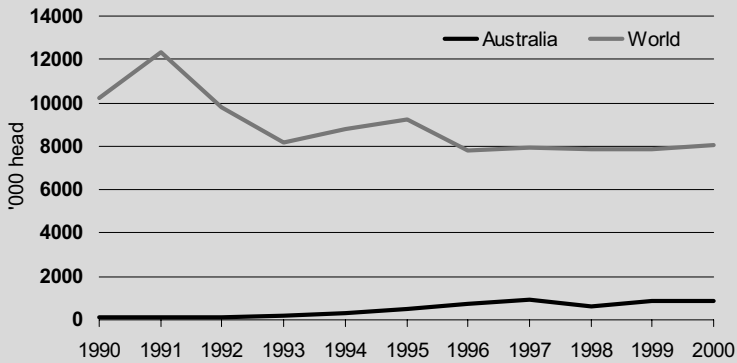


Global trade in live cattle has contracted by more than 20 per cent over the period. Within this contracting market live cattle exports from Australia have boomed — from negligible levels at the start of the decade to 11 per cent of global exports by 2000 (chart 3).



# 1 WHAT IS HAPPENING TO GLOBAL BEEF TRADE?

## 3 Global trade in live cattle is falling



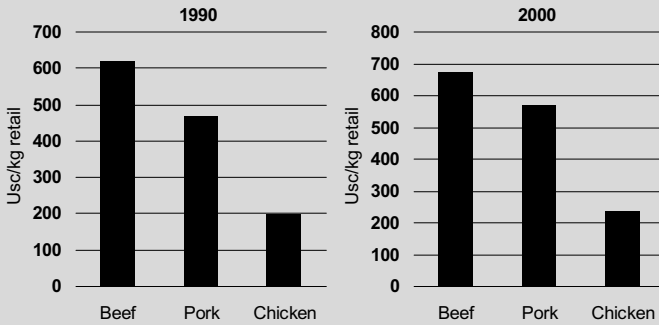
Source: GMI database, USDA.

Despite some narrowing of the price differential, beef remains expensive relative to competing meats (chart 4). Globally, consumers have continued to switch their meat consumption away from beef (chart 5). Global beef production fell by 3 per cent over the 1990s. This compares with a 52 per cent increase in poultry meat production and a 25 per cent increase in pork meat production (chart 6). Clearly, beef is losing the fight for the consumer's dollar.

In high income industrial countries, meat markets have matured. Increases in per capita incomes no longer lead to increases in per capita meat consumption (chart 7). With changing lifestyles and low or negligible population growth in these countries the underlying growth in demand for beef and competing meats is very weak. For growth in beef production in these countries to be sustained and increased, an increasing share of additional production must be exported.

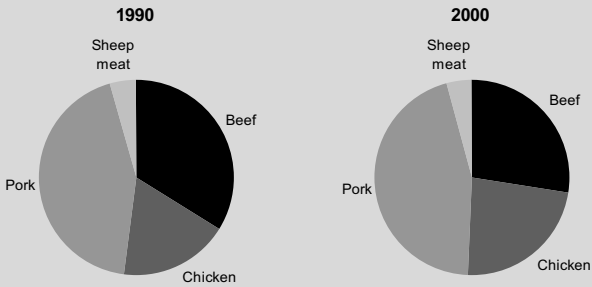
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## 4 Beef remains expensive relative to competing meats (meat prices in the US)



Source: GMI database.

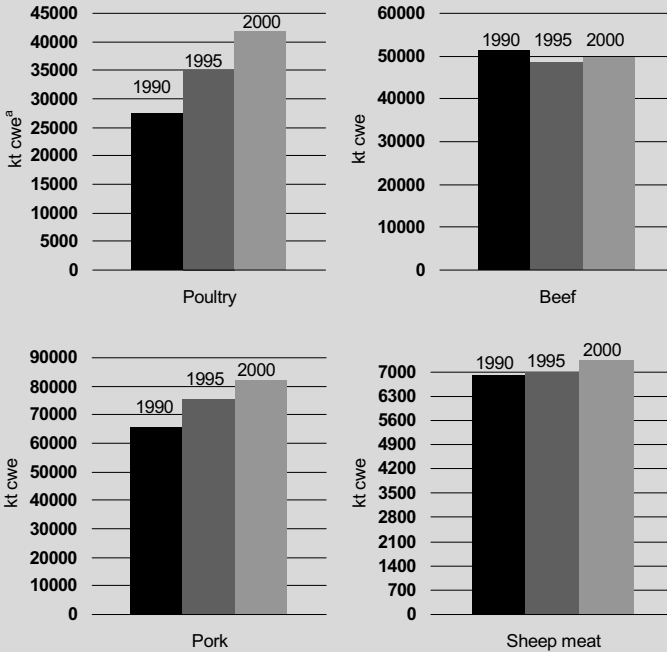
## 5 Globally consumers are switching away from beef



Source: USDA.

# 1 WHAT IS HAPPENING TO GLOBAL BEEF TRADE?

## 6 In contrast to other meats global beef production is falling



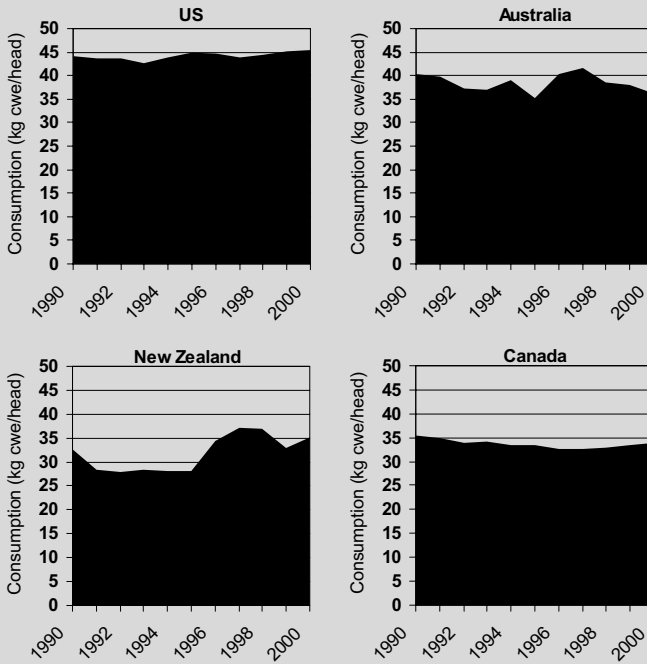
<sup>a</sup> Poultry production is kt ready to cook.

Source: USDA.

Over the past decade growth in north Asian demand for beef has been rapid, aided by progressive relaxation of import quotas in Korea, though offset to some extent by a maturing of the markets in Japan and Taiwan (chart 8). Falling beef production in these countries has created a strong demand for imported beef — especially from the US, Australia, New Zealand and Canada (chart 9).

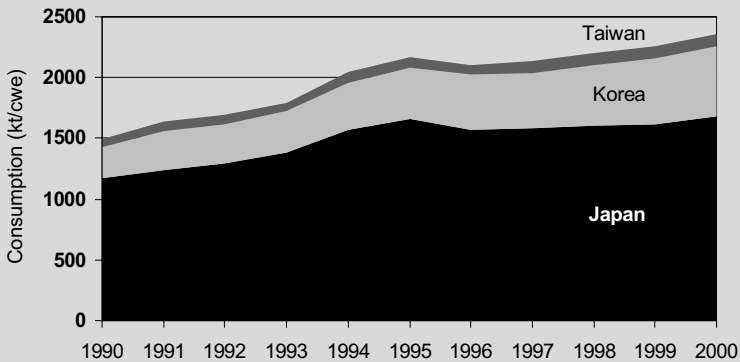
# MAGELLAN PROJECT PHASE 1

## 7 Mature markets in major beef exporting countries



Source: GMI database.

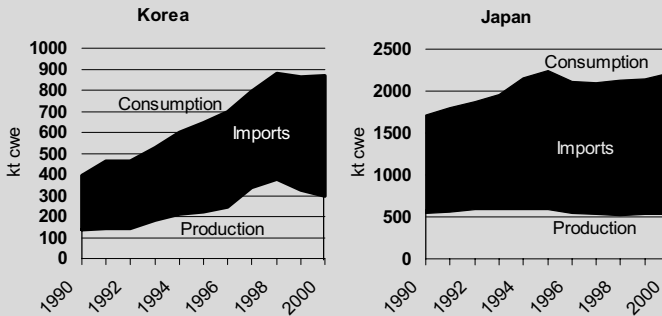
## 8 Growth in north Asian beef demand has been rapid



Source: GMI database, USDA.

# 1 WHAT IS HAPPENING TO GLOBAL BEEF TRADE?

## 9 Beef imports have increased rapidly in Korea and Japan

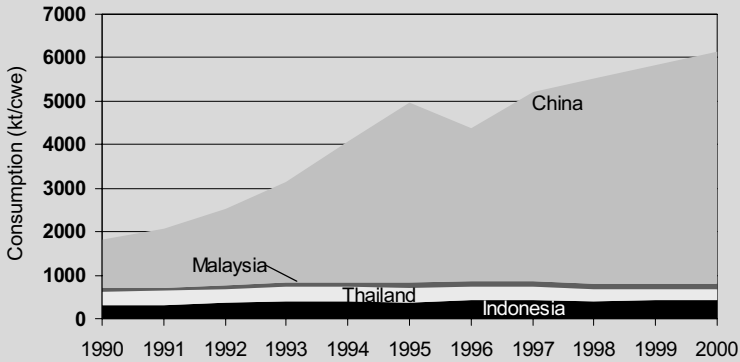


Source: GMI database.

New markets for beef have also emerged in a number of other Asian countries in particular Indonesia, Thailand, Malaysia and China (chart 10). In the case of China, the enormous increase in demand for beef has been met by a spectacular increase in domestic production with virtually no implications for world beef trade. In the space of two decades China's beef production has increased from 269 kilotonnes to over 5000 kilotonnes to make it the world's third largest beef producer after the US and Brazil. For Indonesia, the 34 per cent increase in beef consumption over the decade has been almost matched by a 28 per cent increase in production, through large volumes of live cattle imports.

Since 1990 there have been significant reductions in barriers to beef trade in some countries which has opened up new trading opportunities for efficient beef producers. Foremost among these developments are the opening up of the Japanese and Korean beef markets to import competition, the shift to tariff quotas in the US and Canada and the reduction in subsidised exports from the EU.

### 10 Beef consumption is increasing steadily in some low income Asian markets



Source: GMI database, USDA.

- In Japan, a 70 per cent tariff replaced the import quota in 1991 with progressive reductions in tariffs to 38.5 per cent now.
- In Korea, a virtual import ban was replaced by a quota in 1988 with progressive increases in quota and conversion to a tariff only barrier of 41.2 per cent in 2001.
- In the US and Canada, tariff quotas replaced rigid quotas.
- In the EU, subsidised beef exports were reduced by 26 per cent as a result of the Uruguay Round but import quotas remain.

These barrier reductions have facilitated trade growth, principally within the Pacific Rim. Without them global beef trade over the past decade would have been even worse than its extremely modest outcome.

# 1 WHAT IS HAPPENING TO GLOBAL BEEF TRADE?

## **The outlook without further trade liberalisation**

In the absence of further and extensive reductions in barriers to trade in beef the global beef production and trade outlook remains poor. Productivity improvements in pork and poultry production will continue to outpace those for beef. As a result beef will not be as competitively priced as pork and poultry. Beef will continue to give up market share to these meats and to other sources of meat protein. It is not that consumers prefer these meats: rather, it is that pork and poultry make the household budget go further. Price is critical in the meat protein business.

Beef demand growth will be strongest in those countries with rapidly growing incomes, and large and growing populations. A number of Asian countries fit this description. While people in these countries are not big meat eaters by western standards, they are eating more meat as their incomes grow. Most of this increase in meat consumption is pork and poultry. Although beef consumption is growing in these countries, it remains a small part of their diet.

## ***The challenge for beef producers***

The challenge for beef producing and exporting countries is to bring about a reduction in the price of beef to consumers in importing countries while at the same time maintaining prices to producers. To do this requires eliminating trade barriers to beef. As we discuss next, these barriers are high in absolute terms and high relative to the trade barriers against competing meats in many importing countries. Eliminating them will make beef more affordable to consumers. This will stimulate global beef production and trade.

## **2 BARRIERS TO GLOBAL TRADE IN BEEF REMAIN LARGE**

**D**espite the progress of the 1990s in reducing barriers to global beef trade governments in many countries continue to maintain policies which inhibit trade. The policies include setting beef tariffs at high levels and imposing restrictive tariff rate quotas often with prohibitive above quota tariffs. These policies are directed at protecting domestic producers against foreign competition.

In addition there are non-tariff barriers such as retail regulations which restrict where and how imported beef can be sold and import licensing provisions all of which favour the domestic against the imported product. These are harder to identify and to measure though their effects, in terms of restricting trade and increasing prices to consumers, can be extremely large.

### **Existing barriers**

These are set out in table A1.

- The major beef markets of Japan and Korea still have tariffs on beef imports of 38.5 and 41.2 per cent respectively. These are very large numbers when compared with average tariff rates on manufactured goods current levied around the world. After the implementation of the reductions in barriers negotiated in the Uruguay



## 2 BARRIERS TO GLOBAL TRADE IN BEEF REMAIN LARGE

Round the average tariff over all industries and countries is less than 4 per cent.

- Some other Asian countries, China and Thailand in particular, also maintain high tariffs on beef imports of 45 and 53.5 per cent respectively.
- The EU continues to represent a major obstruction to global beef trade. It maintains import quotas on high quality beef, frozen beef and meat for further processing as well as within quota tariffs. And it continues to subsidise significant volumes of beef exports.
- By contrast, the barriers to competing meats in many Asian countries are considerably lower (table 11).

These barriers continue to severely restrict global beef trade. They inhibit beef industry development in efficient producing/exporting countries and provide a boost to pork and poultry consumption and hence the incomes of pork and poultry producers. With consumers forced to pay too much for their beef they have less to spend on other goods and services. The result is reduced growth prospects in other industries in those countries which erect barriers against beef trade and reduced overall economic performance.

### 11 Barriers to beef are higher than for competing meats in many Asian countries

	<i>Japan</i>	<i>Korea</i>	<i>Taiwan</i>	<i>Thailand</i>	<i>China</i>
Beef	38.5	41.2	33.5 <sup>a</sup>	53.5	45.0
Poultry	8.5	20.0	40.0	36.7	20.0
Pork	4.3	25 <sup>b</sup> –29.8 <sup>c</sup>	15.0	36.7	20.0
Sheep meats	0.0	25.8	25.8 <sup>d</sup>	36.7	23.0

<sup>a</sup> Tariff equivalent on Australian grass fed beef for 2001. <sup>b</sup> Chilled. <sup>c</sup> Frozen. <sup>d</sup> Tariff equivalent for lamb for 2001.

Source: GMI database.

### **3 HOW COSTLY ARE THE BARRIERS?**

**W**hen countries erect barriers to beef imports they in effect impose a consumption tax on beef purchases. The result is higher retail prices and less beef consumption. While beef producers in importing countries gain somewhat, the gains are often dissipated. Domestic producers have a smaller market to sell their product. And trade barriers limit competition which stifles innovation and productivity improvements. This in turn retards beef industry growth and development in importing countries over the longer term.

Efficient beef exporters are also hit hard. Export prices for beef are lower than otherwise as are sales volumes.

Removing barriers to beef trade will mean winners in both importing and exporting countries. Consumers in importing countries will win from the lower beef prices. They will have a wider variety of beef to choose from and be able to eat more beef. With a lower share of their incomes needed to satisfy their beef purchases they will have more to spend on other things.

Importers, wholesalers, processors and retailers in importing countries will also benefit. There will be more imported beef to handle and sell, leading to a bigger industry.

Producers, exporters, traders, wholesalers and processors in beef exporting countries will also be big winners. More

### 3 HOW COSTLY ARE THE BARRIERS?

trade means higher incomes, more innovation and faster growth of the beef producing industry and associated activities.

We have used a global model of meat production, consumption and trade to quantify the gains to beef producers in exporting countries and beef consumers in importing countries from the elimination of all existing barriers to trade in beef. The Global Meat Industries Model (GMI) divides global beef trade into 23 regions. In each region it explains the behaviour of producers and consumers. It distinguishes beef from each producing country as a separate product and tracks the trade in each country's beef to all markets and the barriers to each trade.

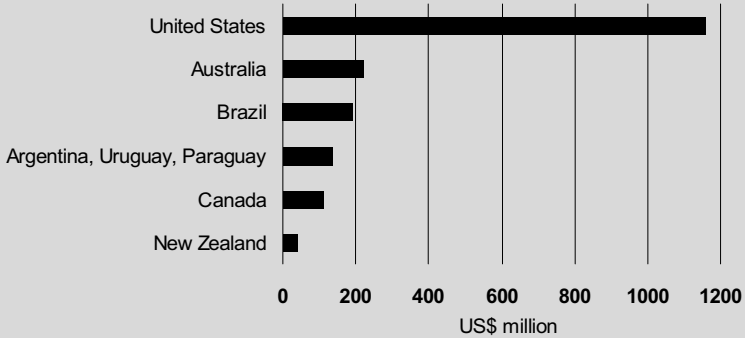
Chart 12 summarises the annual gains to producers in a selection of exporting countries from the removal of all beef trade barriers. The gains are measured in terms of the addition to producer profits (gross returns less all variable costs of production).

Chart 13 shows the gains to beef consumers in countries which maintain substantial barriers against imported beef. These gains are measured in terms of increase in consumer surplus. Consumer surplus represents the extent to which consumers pay less for a good or service than they are willing to pay for that good or service. A fall in price generates an increase in consumer surplus as consumers can purchase the same amount of beef at a lower price, or increase their meat consumption in favour of beef.

Clearly there are enormous gains to both beef producers in exporting countries and beef consumers in importing countries from the removal of barriers to global trade in beef.

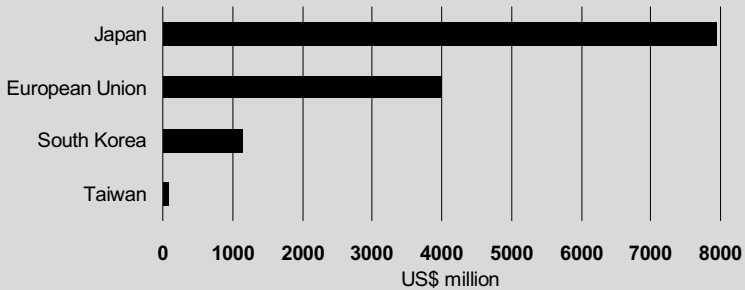
# MAGELLAN PROJECT PHASE 1

## 12 Annual gains to producers in exporting countries from the removal of barriers to trade in beef Increase in producer profits in 2002



Source: GMI model.

## 13 Annual gains to consumers in importing countries from the removal of barriers to trade in beef Increase in consumer surplus in 2002



Source: GMI model.

## 4 COMPLETING THE STORY

The preceding analysis shows the potential economic gains from a complete removal of the formal barriers to beef trade that remain in the world today. But this analysis is not the whole story. There are several important additional components of analysis which need to be undertaken.

- First, there are also informal or non-tariff barriers that impede trade in beef. Examples of these non-tariff barriers are labelling requirements or the working of the wholesale/retail distribution system in some countries which discriminates against imported products. These informal barriers need to be assessed.
- Second, like all protected markets, the beef markets in countries that restrict beef imports have their own political economy attributes that will affect the possibility and extent of liberalisation. The political attributes of each beef market and the non-tariff barriers affect what might be possible for achieving greater access for exporters. These need to be researched and understood.
- Third, there will be differences in effects on trade between the type of protection instrument used by importing countries. For example, the removal of domestic subsidies will have different effects on production, consumption and trade than securing more market access. These different repercussions from

## **MAGELLAN PROJECT PHASE 1**

removal of trade barriers and protection need to be assessed. In the past, sometimes one protecting instrument has simply been replaced by another.

The second phase of this project will analyse the impact of non-tariff barriers to trade in beef in key markets. It will also assess the political economy of beef industry protection in key markets such as Japan, Korea and the EU. The focus will be on why governments continue to protect their beef industries from imports despite overwhelming evidence of the harm done to consumers.

The various options for removing different barriers to trade will be assessed and the gains to exporters and to consumers in importing countries will be reported.

This second phase of analysis will allow an optimal strategy for beef liberalisation by exporters to be devised. This strategy can then be used either for the on-going round of agricultural trade talks as part of the built-in agenda of the Uruguay Round Agreement on Agriculture or as part of a potentially expanded round of trade talks stemming from the planned meeting of trade ministers in Doha, Qatar in November this year.

# A BARRIERS TO GLOBAL BEEF TRADE

Table A1 summarises barriers to access in selected countries.

<b>A1 Barriers to access in certain beef countries</b>		
<i>Market</i>	<i>Barrier</i>	<i>Effective tariff rate</i>
Japan	Tariff	38.5 per cent
South Korea		41.2 per cent
Taiwan		NT\$22.1/kg for special quality beef (USDA choice, Canadian AAA). NT\$27/kg for other product including Australian and New Zealand beef
United States	Tariff quota	696 600 tonnes total quota (excluding NAFTA partners) with US\$4.4c/kg within-quota duty and above quota tariff rate of 26.4 per cent.  Bilateral quotas: Australia 378 214 tonnes New Zealand 213 402 tonnes Argentina 20 000 tonnes Uruguay 20 000 tonnes  Exports from NAFTA countries have tariff free access.

(Continued on next page)

## MAGELLAN PROJECT PHASE 1

<b>A1 Barriers to access in certain beef countries (Continued)</b>		
<i>Market</i>	<i>Barrier</i>	<i>Effective tariff rate</i>
Canada	Tariff quota	114 600 tonnes global quota with no within quota tariff. Above quota tariff rate of 26.5 per cent.  Quota not binding in recent years.  Bilateral quotas: Australia 35 000 tonnes New Zealand 29 600 tonnes
Mexico	Two-tiered tariff	Chilled 20 per cent Frozen 25 per cent NAFTA beef imports enter duty free
EU	Tariff quota	High Quality Beef Quota (HQB) and a within quota customs duty of 20 per cent. Above HQB quota customs duty of 14 per cent plus import tariffs between 154.7-290.2 Euro/100kg  Global frozen beef quota of 53 000 tonnes (allocated to importers, quota year January to December): customs duty 20 per cent  Global Frozen Meat for Further Processing Quota 50 700 tonnes (allocated to importers, quota year January to December): customs duty 20 per cent  Above Frozen Beef and Frozen Meat for Further Processing quotas: customs duty 14 per cent plus import tariffs between 194-418ECU/100kg
China	Tariff	45 per cent for beef and 20 per cent for offal. WTO accession offer to reduce the tariff to 12 per cent over a five year period to 2004
Malaysia	Free	Free
Indonesia	Tariff	5 per cent (reduced from 22.5 per cent as part of IMF package)
Philippines	Tariff	10 per cent

(Continued on next page)



## A BARRIERS TO GLOBAL BEEF TRADE

### A1 Barriers to access in certain beef countries (Continued)

<i>Market</i>	<i>Barrier</i>	<i>Effective tariff rate</i>
Thailand	Tariff	53.5 per cent
Singapore	Tariff	Free
Australia	Free	Free
New Zealand	Free	Free
Hong Kong	Free	Free

*Source:* GMI database.