
International Dairy Arrangement

INTERNATIONAL DAIRY PRODUCTS COUNCIL

SEVENTEENTH SESSION

Report

Chairman: Mr. T. Groser

1. The International Dairy Products Council held its seventeenth session on 23 September 1987.
2. The Council adopted the following agenda:
 - A. Admission of observers under Rules 11 and 14 of the Rules of Procedure
 - B. Review of the functioning of the Arrangement
 - C. Evaluation of the situation in, and outlook for, the world market for dairy products
 - D. Report to the CONTRACTING PARTIES
 - E. Information requested by Negotiating Group No. 8
 - F. Tentative schedule of further meetings
 - G. Note by the Chairman on the present meeting
- A. Admission of observers under Rules 11 and 14 of the Rules of Procedure
3. The Council invited the representatives of Panama in the capacity of observer, to follow the proceedings of the session, in conformity with Rule 11 of the Rules of Procedure.
4. The Chairman recalled that at its eleventh session held in September 1984, the Council had agreed to extend an invitation of a permanent character to the Economic Commission for Europe, FAO, OECD and UNCTAD. Accordingly he invited these organizations to participate in the present session as observers. Furthermore, an observer for the IMF was invited to attend the session, in conformity with Rule 14 of the Rules of Procedure.

B. Review of the functioning of the Arrangement

Reports of the thirtieth and thirty-first sessions of the Committees of the Protocols

5. In accordance with Article IV:1(b), the Council reviewed the functioning of the Arrangement. For this review, the Council had before it the reports of the thirtieth sessions of the Committee of the Protocol Regarding Milk Fat (DPC/F/50), the Committee of the Protocol Regarding Certain Cheeses (DPC/C/46) and the Committee of the Protocol Regarding Certain Milk Powders (DPC/P/48). The Chairman mentioned that the full reports of the thirtieth sessions had been approved by the Committees recently and that these would be circulated shortly as documents DPC/F/51, DPC/C/47 and DPC/P/49. Furthermore, the Chairman of the Committees presented an oral report of the thirty-first sessions of the Committees.

6. The Committee of the Protocol Regarding Certain Milk Powders, the Committee of the Protocol Regarding Milk Fat and the Committee of the Protocol Regarding Certain Cheeses held their thirty-first sessions consecutively on 21 and 22 September 1987.

7. After examining the replies to the questionnaires, the Committees considered the market situation for the products covered by each of the Protocols.

8. The Committee of the Protocol Regarding Certain Milk Powders noted that world skimmed milk powder production had risen by some 5 per cent to a total of 4.8 million tons in 1986. However, efforts made in several countries to contain milk and butter production had entailed a reduced production of skimmed milk powder in 1987. Total world production was consequently expected to decrease substantially in 1987 as the EC and the United States both reduced milk output; in Oceania also, output in 1987 was expected to be lower than in 1986.

9. World consumption of skimmed milk powder was slightly reduced in 1986. Demand of skimmed milk powder for feed purposes might continue to be affected by regulations of milk deliveries. However, the market outlook for milk powders for human consumption was promising in 1987/88.

10. There was a decline of nearly 2 per cent in world trade in skimmed milk powder in 1986, with reduced sales by several major exporting countries, with the exception of Canada and the United States. However, world exports of skimmed milk powder (including food aid) were expected to increase in 1987.

11. Total stocks of skimmed milk powder in the EC, North America and Oceania of approximately 1 million tons on 1 July 1987, were down by 28 per cent from one year earlier. Stocks continued to decline in the third quarter of 1987. Public stocks held by the EC decreased to 750 thousand tons on 10 September 1987 as against 845 thousand tons on 1 October 1986. A sharp decrease was reported as regards United States stocks with public stocks amounting to only some 27 thousand tons at the end of August 1987.

It was expected that stocks at the end of 1987 would be substantially lower than their level at the beginning of the year, with United States stocks reduced to insignificant levels.

12. International prices of skimmed milk powder showed a steady improvement throughout the latter part of 1986 and in the first three quarters of 1987. Prices were fluctuating between US\$900 and US\$1,000 per ton f.o.b. in the third quarter of 1987. The market for skimmed milk powder strengthened and the supply situation was tight with an expectation that prices would continue to rise in the coming months.

13. World whole milk powder production increased slightly from 1985 to 1986, in the latter year estimated to have reached 1.3 million tons, and continued to grow in 1987. Trade in whole milk powder increased slightly in 1986 and import demand remained strong in 1987. In the third quarter of 1987, prices ranged between US\$950 and US\$1,060 per ton f.o.b. Thus, the market for whole milk powder remained firm, the supply situation was tight and prices were likely to increase further.

14. The Committee of the Protocol Regarding Milk Fat noted that world production of butter and butteroil in 1986 had amounted to 7.8 million tons, an increase by 2.2 per cent on the level of 1985. This was mainly due to the increase in Community butter production. Measures taken by the Community to discourage butter production, including restrictions on intervention purchases, were having appreciable effects and for the first half of 1987, Community butter production fell by 15 per cent compared to the corresponding period of 1986, and was for the year as a whole expected to be brought back to the average level of 1981-83. This would in itself entail a significant reduction, and would together with reduced production in Oceania and North America result in world butter production being significantly reduced in 1987/88.

15. Available information on consumption of butter indicated a slight decrease in 1986. However, there were indications that 1986 total consumption of butter in the participating countries edged slightly higher than in 1985 as a result of numerous measures taken to promote its consumption.

16. World butter exports amounted to less than 600 thousand tons in 1986, less than three fourths of their level in 1985. Considerable sales at discount prices below the minimum, and by derogation under Article 7:1 of the Protocol, of butter and butteroil to the USSR and Brazil had been concluded in 1986 and subsequent deliveries would hopefully be completed in 1987. This might result in higher export figures, but the international market for butter and anhydrous milk fat remained fragile. Reduced supplies of butter in 1988 were expected to result in an improvement in prices.

17. Total stocks of butter in the EC, North America and Oceania on 1 July 1987 at 1.40 million tons were about 16 per cent lower than a year earlier. Stocks continued to decline in the third quarter of 1987. Intervention stocks held by the EC decreased to 1.07 million tons on 10 September 1987

as against 1.24 million tons on 11 September 1986. It was expected that world stocks at the end of 1987 would be substantially lower than their level at the beginning of the year. EC total stocks were expected to be reduced to 750 thousand tons, almost half of their level (of 1.36 million tons) at the beginning of the year.

18. The Committee took note of a notification by the EC of aged butter sales for welfare purposes to Algeria and Egypt (DPC/F/W/31 and Add.1), and of additional information furnished by the EC. These transactions were considered to be other than normal commercial transactions in terms of the Arrangement.

19. Regarding sales under derogations, the Committee took note of the additional information furnished by participants with regard to sales of butter and anhydrous milk fat under the Decision adopted on 31 May 1985 (DPC/F/35). The Committee also took note of various information presented by participants concerning sales related to the Decision of 2 June 1987 (DPC/F/48). Certain participants reserved their right to revert to the issue of a possible extension of the cut-off date of 31 December 1987. It was recalled that some of the provisions of said decision (including the cut-off date of 31 December 1987) might be reviewed at the next regular session of the Committee or earlier if considered necessary.

20. Concerns expressed earlier with regard to the observance of the minimum price for anhydrous milk fat were reiterated, and in this respect it was recalled that participants had undertaken to take the steps necessary to ensure that the minimum prices were observed and that efforts were further pursued to this effect. Some concern was expressed at the reintroduction of unpublished refunds.

21. Both butter and anhydrous milk fat prices had remained at or slightly above the minimum export prices in 1986 and throughout 1987, although some sales of fresh butter were reported to have been effected at prices up to US\$1,050 per ton f.o.b.

22. The Committee of the Protocol Regarding Certain Cheeses noted that world cheese production, at nearly 13 million tons, had been almost 1 per cent greater in 1986 than in 1985. Another 1 per cent gain was forecast for 1987.

23. Cheese consumption had continued to expand in 1986 and was expected to develop further in 1987.

24. World exports of cheese reached some 865 thousand tons in 1986 and were expected to increase in 1987.

25. Cheese stocks were, at 1 July 1987, lower than one year earlier and were expected to decline further throughout 1987.

26. The Committee took note of the information furnished by New Zealand regarding operations under Article 7:2 of the Protocol. The Committee noted that New Zealand was not pursuing its request for a modification of

an interpretative note to the Protocol at this stage. Certain participants expressed concern with regard to the use of this derogation by New Zealand. The Committee took note of the comments and statements made. It also noted a statement by the representative of New Zealand that for the current year its exports of cheese under Article 7:2 would be well within the limits set by the interpretative note.

27. Market prices for cheese continued to vary according to types of cheese and market in 1986 and throughout 1987. Prices of Cheddar cheese remained well above the agreed minimum export price and firmed during the third quarter of 1987 fluctuating between US\$1,150 and US\$1,250 per ton f.o.b.

28. The EC representative expressed the wish that increased efforts be made in order to improve the exchange of information in the Committees and also to aim at making improvements in the documentation made available. The Chairman suggested devoting some time at the next series of meetings for a discussion on how the working methods of the Committees might be improved. The Committees took note of these suggestions.

29. The Committees noted that no significant sales of dairy products had so far been reported to have been made under the new Dairy Export Incentive Program adopted by the United States in February 1987. It was also noted that due to the reduction in stocks, the United States was not expected to play an important role in the export markets in the near future.

30. The Committees carried out the review of the levels of minimum export prices for the products covered by the respective Protocols, on the basis of the criteria established by the Arrangement.

31. The Committee of the Protocol Regarding Certain Milk Powders and the Committee of the Protocol Regarding Certain Cheeses decided, in conformity with the provisions of Article 3:3(a) of each of the Protocols, that the levels of the minimum prices specified in Article 3 of each of the Protocols should be modified and that their decision should take effect at noon on 23 September 1987. The new minimum prices were:

- Skimmed milk powder US\$825 per metric ton f.o.b.
- Whole milk powder US\$950 per metric ton f.o.b.
- Butter milk powder US\$825 per metric ton f.o.b.
- Certain cheeses US\$1,120 per metric ton f.o.b.

The schedules of price differentials according to milk fat content set forth in Annex Ib of the Protocol Regarding Certain Milk Powders was consequently modified. Each of the decisions would be duly recorded in the reports of the Committees and would be the subject of a procès-verbal signed by the Director-General of the CONTRACTING PARTIES to the General Agreement on Tariffs and Trade, certifying the entry into force of the new minimum prices and the new schedule of price differentials.

32. The Committee of the Protocol Regarding Milk Fat noted that although certain criteria set out by the Arrangement might warrant an increase in the minimum prices of products covered by the Protocol, the market situation remained too fragile to allow a modification at present. However, taking into account the expected improvement in market conditions the Committee might revert to this issue at a future meeting.

33. The next regular sessions of the Committees of the Protocols were envisaged to be held on 14 and 15 December 1987. The Committees took note of a preliminary programme of further regular meetings up to the end of 1988.

34. As his personal observations, the Chairman of the Committees added that the Committees' meetings had been action oriented and that the Protocols were effectively applied. He suggested that in the informal discussions related to future consideration of working methods of the Committees, exchange of information and preparation of documentation, the working methods of the Council should also be taken up.

35. Referring to the decision of the Committee of the Protocol Regarding Certain Milk Powders to raise the minimum export price for skimmed milk powder, the representative of Poland reserved the right of his delegation to revert to the question of observance of the minimum export price for skimmed milk powder at the next meeting of the Committee and if then found necessary and appropriate, to review its level in light of further developments in the market situation. He also requested his statement to be recorded in the report of the thirty-first session of the Committee of the Protocol Regarding Certain Milk Powders.

36. The Council took note of the reports on the implementation of the Protocol Regarding Certain Milk Powders, the Protocol Regarding Milk Fat and the Protocol Regarding Certain Cheeses, and in particular noted that the minimum export prices for certain cheeses and milk powders had been modified with effect from 23 September 1987. It also noted the comments made by Poland in this regard. The Council expressed its sincere thanks to the Chairman of the Committees for his excellent work and for the reports.

Replies to Questionnaire 4

37. The Chairman recalled that Questionnaire 4 concerned information on milk and dairy products not covered by the Protocols. According to Rule 23 of the Rules of Procedure, annual data should be furnished two and a half months at the latest after the end of the period concerned, and information for the first half of the year, six months thereafter. The secretariat had sent out a questionnaire on 14 August 1987, requesting the relevant information to be submitted by 15 September 1987. However, at the time of the meeting, replies had been received only from Australia, Uruguay and Canada, and the Chairman urged participants who had not yet submitted their information to take the necessary steps as a matter of urgency to ensure that the relevant information would be submitted to the secretariat.

38. The representative of the European Communities apologized for not yet having submitted all the information requested. The delay was due to problems related to the enlargement of the Community from ten to twelve member countries and the recent introduction of computerized collection of data. He hoped to be able to provide the data within the next three weeks. The representative of Finland also apologized for not having replied to Questionnaire 4. The Finnish statistical system only allowed annual data to be provided for products not covered by the Protocols.

39. The Council took note of the information submitted, which had been or would shortly be circulated in the DPC/STAT/- series, and of the comments made.

Replies to Questionnaire 5

40. The Chairman reminded participants that they were supposed to communicate any changes in domestic policies and trade measures on a continuous basis and in any case by July each year. He urged participants who had not yet done so, to submit due notifications as soon as possible.

41. The Council took note of document DPC/INV/3/Rev.4, which showed the state of the inventory on 18 September 1987.

C. Evaluation of the situation in, and outlook for, the world market for dairy products

42. For its traditional evaluation of the situation in, and outlook for the world market for dairy products, the Council had before it various documentation prepared by the secretariat; namely a status report on the world market for dairy products (DPC/W/73, and Addendum 1), a note on food aid operations relating to dairy products (DPC/W/74) and relevant statistical information (DPC/W/66/Rev.1, DPC/F/W/27/Rev.1, DPC/C/W/33/Rev.1 and DPC/F/W/33/Rev.1). The Chairman recalled that parts of the status report had been subject to consideration in the Committees of the Protocols, which had also reviewed the statistical information. He invited delegates to make general comments on dairy policy matters and the market situation, but anyone should feel free to take up specific points related to the market situation and the documentation, if this was desirable.

43. As to developments in milk production and deliveries, more recent information was provided by several representatives. In the European Communities, the decline in the number of dairy cows was expected to continue in 1988, and milk deliveries were in 1987 down to some 95.3 million tons compared to almost 100 million tons several years earlier. The quota system which would be in force until 1988/89 was expected to be prolonged beyond that year. In Japan, milk deliveries at a level of 7.3 million tons were down 1 per cent on the previous year, and production control measures would be maintained.

44. Adverse weather conditions had resulted in a strong decline in milk deliveries in New Zealand of some 14 per cent from 1985/86 to 1986/87. The output of all dairy products except whole milk powder had consequently been

reduced. The farm gate price for milk (basic milk-fat and solids non-fat price) which in the middle of 1986 had been lowered to 2.25 dollars per kilogramme was later raised to 3.20 dollars per kilogramme. For 1987/88 the farm gate price had been fixed at 3.10 dollars per kilogramme.

45. A severe winter and a bad summer had adversely affected feed supplies in Finland in 1987, resulting in a decline in milk deliveries, which for 1987 were expected to reach 2.7 million tons. Also for Switzerland, a decline of 2.6 per cent in milk deliveries was anticipated for 1987. In 1986/87, Australian milk deliveries rose by some 2 per cent, but a slight decrease was expected for 1987/88. Canadian milk production had increased by 1 per cent from 1985/86 to 1986/87.

46. The representative of Sweden commented upon the effects of the outgoer scheme applied since 1984. At present some three thousand retired milk producers were receiving compensation and the scheme would be maintained also in 1988. The resulting reduction in milk production was estimated to be more than 175 thousand tons. Another measure applied to contain milk production was a two-price system applied on a trial basis for the period July 1985 to June 1988. Although similar to quota systems applied in other countries, participation in the programme was voluntary in Sweden. Referring to the notification already made to the Council, he recalled briefly that milk producers had the option of entering into a contract for a given quantity to be sold at a price corresponding to the price obtained for milk sold in the domestic market. For quantities in excess of this he would receive a milk price corresponding to the level of export returns for dairy products. The two-price system was in this way intended to discourage surplus production. Farmers not taking part in the system would receive a price for their milk corresponding to the domestic market price reduced by an export financing fee corresponding to the difference between domestic prices and export returns and account was also taken of the total quantity delivered by producers remaining outside the two-price scheme. The effect of the scheme had been somewhat stronger than initially expected. The number of cows fell by more than 50 thousand from June 1985 to June 1987 and deliveries fell by 250 thousand tons. In 1986 the decline was 4.5 per cent and deliveries had continued to decline in 1987. Other measures were also being implemented to contain the surplus of dairy products. Public institutions were allowed to purchase cheese and butter at reduced prices and dairies were receiving premiums for additional sales of certain milk products.

47. The New Zealand representative recalled that in most developed countries, dairy industries operated in a protected environment with the prices producers received for their milk determined centrally by governments rather than by the market. The price mechanism was therefore, as a result of deliberate government policy, prevented from performing its function of regulating supply in relation to market demand. With prices held above market clearing levels the regulation of production inevitably became necessary.

48. In New Zealand, on the other hand, producer prices for milk were determined directly by export market realizations. This was also the case for other sectors of agriculture, notably the grazing of sheep for meat and

wool. Fundamentally therefore, the level of milk production in New Zealand was determined by the export performance of the dairy industry relative to other alternative uses of land and pastures, with short term sharp variations because of the climatic conditions. Although there were no subsidies or other regulations which could be manipulated to control production, a number of steps to influence milk production had been taken recently such as a supply moratorium, and a milk limitation scheme, applied in the 1986/87 season, resulting in contracts to reduce production by 5,300 tons of milk fat or 1.5 per cent of 1985/86 output. The payment for this "non production" was \$1.2/kg. milk fat. For the current season, a "butter realization differential" scheme had been introduced. Under this scheme, payments to dairy companies by the New Zealand Dairy Board would, for butter and butteroil exports beyond a base production level, be based on marginal rather than average market realizations. This was done as a policy thrust to ensure that market signals were passed on to the milk producers.

49. The Community representative reported that the general quota reductions and suspension of intervention adopted in December 1986 had resulted in reduced milk deliveries. In 1987, the dairy herd was estimated to have been reduced by another 1.8 million or 8 per cent, and milk deliveries for the Community of ten were down to 95 million tons, some 8 per cent lower than deliveries in the record year of 1983. A further reduction of 12 million tons of milk was forecast for 1988, which would bring deliveries back to their level of 1978. The quota system would be maintained until 1988/89, but its extension remained a delicate matter and some co-operation of other countries might be demanded. The limitation of intervention purchases adopted from August on apparently had an impact on dairy production. He felt that the market situation was at a turning point, with significant reductions in Community stocks of butter and skimmed milk powder. The Community share of the world market had fallen from 60 per cent in 1980 to 43 per cent in 1986, but might recover in 1987 as exports were progressing again for most dairy products; the major exception being condensed milk which seemed to be losing markets to whole milk powder.

50. The representative of Australia expressed the appreciation of his authorities for the efforts made by the Community to revise its dairy regime. He was concerned though, that some inter-regional transfers of quotas could reduce the effects of the regulations. He was also deeply concerned over the re-introduction by the Community of unpublished export refunds, and feared that this might threaten the current improvements in the market. The unpublished refunds were directed against markets in the Far East which were important outlets for Australia. He wanted to place on record that the continued application of such refunds would have to be taken account of when considering a modification of the minimum export prices for butter and anhydrous milk fat. As to the indication that the Community might request other countries to apply some sort of supply management, he said that the preference of Australia remained to rely on market forces. It was the responsibility of those countries whose domestic policies had led to the difficulties to undertake the necessary adjustments without disruption to international trade.

51. The New Zealand representative was also gravely disappointed with the re-introduction of unpublished export refunds by the Community, and felt that this might endanger the potentially more favourable market situation for milk fat. As to the information given by the Community about market shares, he recalled that until 1975, the Community share of the world market for butter had been virtually nil.

52. The Community representative argued that the Community had the right to export dairy products, and he could not accept that only efficient producers had that right. He referred to some press comments indicating that the accumulation of stocks in the Community was to a great extent due to a fall in exports. Australia, New Zealand and the United States had increased their shares of the world market to the detriment of Community exports from 1981 to 1986, and the Community had lost market shares also for products for which there was no market intervention, such as whole milk powder, cheese and condensed milk. Community exporters had developed markets for these three products throughout the world with great investments involved. He could consequently not accept the criticism of unpublished export refunds, as they were part of the expensive policies to manage supplies. He maintained the view that Australia and New Zealand were still doing nothing to stabilize supplies, at least governmental engagement was virtually zero or close to it, and it was left to the weather to regulate supplies of dairy products.

53. The New Zealand representative as a general comment said that the environment in which international dairy traders were at present operating, was profoundly different from that of a year earlier, as we were now moving into a period of improving prices and stable trading conditions. The root cause of the problems that we had faced was surplus supply pressures from major producers. Prices were still at disastrous low levels and his delegation recognized the efforts made by major producers, notably by the Community and by the United States, to curtail excess production. The particular situation for powder was that surpluses had been disposed of on relatively small international markets open to competition, rather than on the much larger domestic markets which easier assimilate adjustments. The consequences had been quite disastrous to New Zealand, with a decline of 20 per cent in nominal returns to producers, and even more than that in real terms, a decline not experienced before. Although he could see improvement in the situation and found that encouraging, the starting base was low and there was a long way to go. He emphasized the need for close co-operation between the participants of the International Dairy Arrangement in seeking stable and improved prices for dairy products in the future, and stressed the vital role the International Dairy Products Council and the Protocol Committees would have to play in that context.

54. He commended the secretariat for the status report (DPC/W/73), which he felt contained a great deal of useful information and data, and some interesting conclusions and reflections. He suggested that the report might be too detailed and could perhaps be shortened in the future. One might attempt to focus more on some key aspects bearing upon the functioning of the Arrangement. He would give some more recent information and suggest some changes to be made, directly to the secretariat. As to

some information given about United States exports of whole milk powder, he had learned from his experts that the United States did not export whole milk powder but a blend of soya and milk products as food aid.

55. The representatives of Hungary and Poland in expressing their appreciation for the status report, announced that they would give some suggestions to the secretariat for changes to be made, for instance regarding its paragraph 10.

56. The representative of the European Communities expressed his congratulations to the secretariat for having presented a useful status report. There were parts in it which he did not agree with, but he accepted that it was established by the secretariat on its own responsibility. He agreed that parts of the report could be shortened, and that the statistical annex could be further refined, but kept at its present size. As to some assessment made of future developments in the USSR, he suggested that these could be more vague, as only incomplete information was available. He would also like some information on live cattle exports to developing countries to be clarified. He would also suggest that figures for milk deliveries were preferred to those for milk production, as notably for the Community, policies and measures were related to deliveries and not necessarily to total production. He would however give his comments to the secretariat.

57. The Chairman recalled that in paragraph 4 of the Explanatory Note of DPC/W/73, delegations wishing to suggest modifications, corrections or to provide additional information had been invited to make relevant submissions to the secretariat, preferably in writing, and he invited delegates to follow that procedure.

58. The representative of New Zealand reviewed briefly the situation in the casein market and said he would make more detailed information available to the secretariat. The tight supply situation for skimmed milk powder had been matched by a substantial reduction in casein supplies resulting in an upward pressure on prices. In New Zealand, casein production in 1986/87 was down 18 per cent. This had not been expected and stocks were rapidly depleted. New Zealand's ability to service export commitments had been severely stretched, and the production was not expected to recover in 1987/88. Also Community casein stocks were low and production committed well forward. Australian supplies were expected to fall slightly, while supplies from Poland and the USSR were expected to remain at traditional levels. In total, market supplies of casein from all sources were extremely tight and prices had been firming up.

59. The observer from the OECD noted that there seemed to be good consistency between the conclusions arrived at here and those coming out of OECD discussions, notably with respect to the situation in the near future, namely that the market situation was improving following a reduction in excess supplies. As to the medium or long term, it remained an open question whether the trends would be maintained. The underlying causes for the recent situation were resulting from a number of factors such as the application of more market-oriented policies and strict supply constraints

applied by a number of OECD countries. His organization was in favour of market-oriented policies rather than supply control as the latter had tended to preserve a relatively high level of support. Although the present situation might be kept for a few years, the world dairy situation was sitting on a time bomb that could easily explode if supply controls were to be relaxed or abandoned with increased supplies being the result. He referred to the United States, where the Dairy Termination Program had clearly resulted in a fall in milk production in 1987. The Program would however be terminated this year and production was expected to start increasing again at an annual rate of between 2 and 3 per cent. Japan provided another example, where the voluntary milk production limitation scheme had resulted in a temporary fall in production, but he doubted that the effect would last. What was going to happen to the quota system applied by the Community after 1989 was not easy to predict, but it was a possibility that the dairy surplus might again be serious. He consequently felt that a surplus situation could easily occur again in the medium term.

60. The Community representative found the views expressed by the OECD to be too pessimistic. It was important to maintain the favourable mood created by the present situation and not discourage countries from taking and continuing measures to adapt supply to demand, neither to discourage international negotiations aiming at a solution to problems facing dairy trade. He suggested that the proposals made recently by the United States should be taken account of when making long-term forecasts. The representative of New Zealand stressed that it would be incumbent on the countries involved in the Uruguay Round to produce a fairer and more equitable system of rules in international trade also for dairy products.

61. The Chairman drew the attention of the Council to document DPC/W/74 which the secretariat had prepared on the basis of information on food aid available to it. He recalled that Article V of the Arrangement was unique in that similar provisions were not found in other commodity agreements. Participants had taken on some commitment to furnish dairy products to developing countries as food aid and had agreed to notify in advance each year some details on planned transactions of this kind. Recognizing the desirability of harmonizing their efforts in this field, it had been agreed to have an exchange of views in the Council on these matters. So far, only Australia and the European Communities had notified details on their plans for providing dairy products as food aid in 1987.

62. The Council took note of the status report on the world market for dairy products (DPC/W/73 and Addendum 1), a note on food-aid operations (DPC/W/74) and relevant statistical information provided in replies to questionnaires. The Council also noted the comments made under this item of the agenda, and agreed that the status report as completed, up-dated and amended should be released for general distribution as the eighth annual report under the International Dairy Arrangement.

D. Report to the CONTRACTING PARTIES

63. The Chairman recalled that according to a decision by the CONTRACTING PARTIES of 28 November 1979 (BISD 26S/201), the Council was requested to report on its activities since the last session of the CONTRACTING PARTIES

in November 1986. He suggested that the traditional procedure be followed once more, and that he should be authorized to submit on his own responsibility a concise and purely factual report to the CONTRACTING PARTIES on the activities of the International Dairy Products Council and its Committees since the 1986 session of the CONTRACTING PARTIES.

64. It was so agreed.

E. Information requested by Negotiating Group No. 8

65. The Chairman informed the Council that at a meeting of the Negotiating Group on MTN Agreements and Arrangements in May 1987, the Chairman of that body had undertaken to request on behalf of the Group that the Committees of the MTN Agreements and Arrangements provide information on their work (MTN.GNG/NG.8/2, paragraph 11). The Chairman of the Council was, however, reluctant to suggest that any special report should be submitted to Negotiating Group No. 8 or any other negotiating body at this stage and suggested that he might forward to the Chairman of Group No. 8 a copy of the short note he usually circulated to contracting parties after each meeting.

66. The representative of the European Communities said that there was no agreement in Group No. 8 on such reporting, and that the European Communities and other participants had expressed their strong opposition to that being made. He expressed the firm opposition of the European Communities to any kind of reporting to Group No. 8 by the International Dairy Products Council. The New Zealand representative suggested not to take a decision on the matter at this stage.

67. The Council took note of the comments made and left the matter at that.

F. Tentative schedule of further meetings

68. In accordance with Rules 3 and 16 of its Rules of Procedure, the Council adopted the following tentative schedule of regular meetings in 1987 and 1988. Attention was drawn to the very heavy schedule of GATT meetings throughout the remainder of 1987 and 1988 and to the fact that it might be necessary to make changes on short notice. It was understood that any special session would be in addition to this schedule and that all dates would remain subject to confirmation by the secretariat.

1987

14-15 December Committee of the Protocol Regarding Certain Cheeses
 Committee of the Protocol Regarding Certain Milk Powders
 Committee of the Protocol Regarding Milk Fat

1988

21-22 March Committee of the Protocol Regarding Milk Fat
 Committee of the Protocol Regarding Certain Cheeses
 Committee of the Protocol Regarding Certain Milk Powders

23 March International Dairy Products Council

20-21 June	Committee of the Protocol Regarding Certain Milk Powders Committee of the Protocol Regarding Milk Fat Committee of the Protocol Regarding Certain Cheeses
19-20 September	Committee of the Protocol Regarding Certain Cheeses Committee of the Protocol Regarding Certain Milk Powders Committee of the Protocol Regarding Milk Fat
21 September	International Dairy Products Council
12-13 December	Committee of the Protocol Regarding Milk Fat Committee of the Protocol Regarding Certain Cheeses Committee of the Protocol Regarding Certain Milk Powders

G. Note by the Chairman on the present meeting

69. The Chairman recalled that according to the Decision of 28 November 1979, the CONTRACTING PARTIES should receive adequate information on developments relating to the operation of the Arrangement (BISD 26S/201). He accordingly suggested the submission of the following Note by the Chairman:

1. The International Dairy Products Council held its seventeenth session on 23 September 1987.
2. Under Rules 11 and 14 of the Rules of Procedure, the Council invited representatives of Panama and the Economic Commission for Europe, FAO, IMF, OECD and UNCTAD to attend the session as observers.
3. The Council reviewed the functioning of the Arrangement. It took note of reports on the implementation of the Protocol Regarding Certain Milk Powders, the Protocol Regarding Milk Fat and the Protocol Regarding Certain Cheeses and also noted the opinions expressed with regard to the situation in the market for the products covered by the Protocols.
4. The market for most dairy products had shown appreciable improvement throughout 1986 and the first half of 1987. The Council noted that a decline in world milk production had come about in 1987. Although the decline was very modest, it at least indicated that the upward trend which had persisted for years was halted or even reversed. The efforts made in many countries to contain milk production were beginning to show results. World milk production seemed to have been stabilized in 1987 and could hopefully be kept within reasonable limits in the future. However, ample availability of feed at low prices and the application of new technology, notably the use of somatotropin, might make any forecasts for the near future far from being reliable.
5. The international market for butter and anhydrous milk fat remained fragile in 1987, and significant quantities had been disposed of through sales under derogation from the price provisions of the

Arrangement at extremely low prices. However, such sales together with substantially reduced production resulted in an appreciable reduction of stocks providing some hope for improvement in the butter market in 1987/88. Renewed efforts by some countries to dispose of dairy surpluses made early in 1987 had created uncertainties in the world dairy market throughout the year, but the simultaneous reduction in production and in surplus stocks gave rise to a hope for a better balance between commercial import demand and export availabilities in the near future.

6. Import demand for cheese and milk powders which had been relatively low in 1986, recovered appreciably in 1987. At the same time, quantities available for export, notably of powder, were reduced and prices firmed up.

7. In 1987, prices for cheese and milk powders remained well above the respective minimum prices. During the annual review of the minimum export prices, it was decided to raise the minimum prices for cheese and powders effective 23 September 1987. The new minimum export prices were, for certain cheeses US\$1,120 per ton f.o.b., for whole milk powder US\$950 per ton f.o.b. and for skimmed milk powder and butter milk powder US\$825 per ton f.o.b.

8. The Council took note of the information submitted recently in reply to questionnaires 4 and 5, concerning products not subject to the provisions of the Protocols and concerning domestic policies and trade measures, and it urged participants who had not yet done so to take the necessary steps as a matter of urgency to ensure that the relevant information would be submitted to the secretariat. The Council also noted that the Committees would at their next meetings devote some time to the discussion of their working methods, and consider suggestions for improving the exchange of information and preparation of documentation. It was in this context suggested that in the related informal discussions, the working methods of the Council would also be considered.

9. For its traditional evaluation of the situation in, and outlook for the world market for dairy products, the Council had before it two documents prepared by the secretariat, namely a status report on the world market for dairy products (DPC/W/73 and Addendum 1) and a note on food-aid operations (DPC/W/74) with relevant statistical information. The Council took note of the documents and the comments made, and agreed that the status report as completed, up-dated and amended should be released for general distribution as the eighth annual report of the International Dairy Arrangement.

10. Hope and confidence were expressed in the Council that progress made in the Uruguay Round would halt and reverse protectionism in the dairy sector, favour developments of positive attitudes for the liberalization of dairy trade and provide scope for improving the International Dairy Arrangement and for a wider participation in it.

11. The Council authorized the Chairman to submit to the CONTRACTING PARTIES a report on the work done since November 1986 in pursuance of the objectives of the International Dairy Arrangement. It was understood that the Chairman would do so on his own responsibility.

12. The Council adopted a tentative time schedule for regular meetings up to the end of 1988. In doing so, it was understood that any special session would be in addition to that schedule and that all dates would remain subject to confirmation by the secretariat. Attention of delegations was drawn to the very heavy schedule of GATT meetings throughout the remainder of 1987 and 1988 and to the fact that it might be necessary to make changes on short notice."

70. The Council agreed to the suggestion by the Chairman and the note was circulated in document L/6215, dated 24 September 1987.

71. The seventeenth session of the International Dairy Products Council was then closed.