

**GENERAL AGREEMENT  
ON TARIFFS AND TRADE**

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**INTERNATIONAL DAIRY PRODUCTS COUNCIL**

**Report to the CONTRACTING PARTIES**

The present report by the Chairman of the International Dairy Products Council is submitted in accordance with the Decision of 28 November 1979 (BISD 26S/201, paragraph 4), and in conformity with an agreement reached in the International Dairy Products Council at its meeting in September 1994 (L/7532, paragraph 13). The report provides a resumé of the activities and considerations of the Council and its Committees since the Forty-Ninth Session of the CONTRACTING PARTIES.

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The International Dairy Arrangement came into operation on 1 January 1980 and has been extended until 31 December 1994, in conformity with Article VIII, paragraph 4. As of 14 October 1994, the Arrangement had the following participants: Argentina, Australia, Bulgaria, Egypt, the European Communities, Finland, Hungary, Japan, New Zealand, Norway, Poland, Romania, South Africa, Sweden, Switzerland and Uruguay. Other contracting parties and international organizations have been represented at meetings by observers.

The Council held two regular sessions in 1994, one in March and one in September. At its March meeting, the International Dairy Products Council re-elected Mr. J.A. Ruiz (Argentina) as Chairman for 1994 and elected Mr. A. Lakatos (Hungary) as Vice-Chairman. Mr. Lakatos was also elected as Chairman of the Committees of the Protocols for 1994.

Basing itself on reports from the Committees of the Protocols, documentation prepared by the Secretariat and on information provided by participants during meetings, the Council undertook an evaluation of the situation in, and outlook for, the world market for dairy products. The downward trend in world production of all types of milk continued in 1993 and 1994. Key features of the market situation include:

- (i) Production continued to decline throughout Europe. In the European Communities and other Northern and Western European countries, modest declines resulted from governmental policies to reduce production. There were steeper drops in dairy production in most of the Central and Eastern European countries and the former Soviet Union. As a result of favourable weather, good herd conditions and increased supplemental feeding, Australian and New Zealand production in their 1993/94 dairy seasons reached record levels, the second consecutive year for New Zealand. High output is expected to be maintained in both countries also for the 1994/95 dairy year.
- (ii) World production of skimmed milk powder decreased by 1½ per cent in 1993, and is expected to decline further by 4 per cent in 1994. Production of whole milk powder decreased slightly in 1993. World market prices of both milk powders declined significantly in 1993, but recovered somewhat during the first half of 1994. Exports of skimmed milk powder returned to their declining trend in 1993, whereas those of whole milk powder increased.

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(iii) World production of butter and butter oil continued its long-term diminishing trend in 1993. World consumption also continued to decline, although this trend seemed to be levelling off in a number of countries. Prices for butter and butter oil declined further in 1993, and sales of butter below the IDA minimum price level were frequently reported. Exports of butter continued to decline.

(iv) World cheese production continued to expand in 1993, encouraged by the continuing rise in demand. Prices for Cheddar cheese remained relatively high throughout 1993 and the first half of 1994. With demand for cheese growing more rapidly than production, high price levels and continuing export growth are expected to be sustained in the near future.

The Council 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. It examined information submitted concerning production, consumption, trade and prices for products not covered by the Protocols and concerning dairy policies and measures affecting trade. The IDA minimum prices for skimmed milk powder, whole milk powder, buttermilk powder, anhydrous milk fat, butter and certain cheeses were reviewed several times during the year. However, no consensus was reached and the minimum prices remain unchanged.

In June 1993, the Committee of the Protocol Regarding Milk Fat granted a derogation from the minimum price provisions for sales of butter and butter oil to the former Soviet Union. The duration of the derogation was twice extended (in December 1993 and March 1994) and the quantity eligible for the derogation increased. As a result, participants to the International Dairy Arrangement were exempted from the minimum price provisions for a total of 66,500 tons of butter or butter oil exports per participant contracted before the end of May 1994, and delivered before the end of August 1994. Under these derogations, sales totalling 85,500 tons had been notified by 31 May 1994.

As of 4 May 1994, the Committee of the Protocol Regarding Milk Fat decided to suspend the minimum export prices for butter and anhydrous milk fat for a period of up to twelve months. World market prices for butter and butter oil will be kept under review, to permit re-introduction of an appropriate minimum price level as soon as feasible. Following the suspension, butter prices have remained relatively steady, but trade volumes have been very low.

At its meeting in March 1994, the Council considered the proposed revision of the Arrangement, in light of its inclusion in Annex 4 to the Agreement Establishing the World Trade Organization. The Council noted that the proposed changes resulted in a clarification and simplification of the text of the Arrangement and did not affect the basic rights and obligations of participants under the Arrangement. The Council agreed to accept the proposed revisions to the Arrangement and the revised text of the Arrangement was opened for signature at the April 1994 Ministerial Meeting in Marrakesh.

In September 1994, the Council decided that upon the expiry of the fifth 3-year extension of the International Dairy Arrangement on 31 December 1994, the Arrangement would be extended only until the entry into force of the Agreement Establishing the World Trade Organization and the new International Dairy Agreement. The International Dairy Arrangement would terminate on that date (DPC/44). It was also noted that some transitional arrangements might need to be considered at a future date.

At its thirty-first session held in September 1994, the Council agreed that its evaluation of the situation in and outlook for the world market for dairy products, based on documentation prepared by the Secretariat and a summary of the results of the Uruguay Round in the dairy sector, should be released for general distribution as the fifteenth annual report of the International Dairy Arrangement.