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International Dairy Arrangement

INTERNATIONAL DAIRY PRODUCTS COUNCIL

FOURTEENTH SESSION

Draft Report

Chairman: Mr. J.A. Viganó

1. The International Dairy Products Council held its fourteenth session on 20 March 1986.
2. The Council adopted the following agenda:
  - A. Election of Chairman and Vice-Chairman;
  - B. Admission of observers under Rules 11 and 14 of the Rules of Procedure;
  - C. Review of the functioning of the Arrangement;
  - D. Evaluation of the situation in, and outlook for, the world market for dairy products;
  - E. Tentative schedule of further meetings;
  - F. Note by the Chairman.
- A. Election of Chairman and Vice-Chairman
3. In accordance with Rule 2 of the Rules of Procedure, the Council re-elected Mr. J. Viganó (Argentina) as Chairman for 1986/87 and Mr. G.A. Stünzi (Switzerland) as Vice-Chairman.

B. Admission of Observers under Rules 11 and 14 of the Rules of Procedure

4. The Council invited the representation of Mexico and Panama in the capacity of observers, to follow the proceedings of the session, in conformity with Rule 11 of the Rules of Procedure.

5. 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. He had accordingly invited these organizations to participate in the present session as observers. Furthermore, an observer for the IMF attended the meeting.

C. Review of the Functioning of the Arrangement

- Reports of the twenty-fourth and twenty-fifth sessions of the Committees of the Protocols

6. 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 twenty-fourth sessions of the Committee of the Protocol Regarding Certain Milk Powders (DPC/P/39), the Committee of the Protocol Regarding Milk Fat (DPC/F/40) and the Committee of the Protocol Regarding Certain Cheeses (DPC/C/37). Furthermore, the Chairman of the Committees presented an oral report of the twenty-fifth sessions of the Committees.

7. 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 twenty-fifth sessions consecutively on 17 and 18 March 1986.

8. The Committees were required by the Rules of Procedure to elect their Chairman and Vice-Chairman. They had agreed to re-elect Mr. G.A. Stünzi (Switzerland) as Chairman; no election to the Vice-Chairmanship was held.

9. After examining the replies to the questionnaires, the Committees considered the market situation for the products covered by each of the Protocols. The Committee of the Protocol Regarding Certain Milk Powders noted that production of skimmed milk powder at 4.2 million tons in 1985 had been 1 per cent lower than its level in 1984 when it had decreased by 7 per cent. Production had been low in the EC, New Zealand, Australia, Finland, Sweden, Switzerland and Canada; but it had been higher in Poland, Japan, the United States and the USSR. It was estimated that world production would increase by 1 per cent in 1986, with notable increases in the United States and the USSR. Exports of skimmed milk powder had increased in 1985, due mainly to a pronounced increase in foreign donations by the United States. The EEC, Australia and New Zealand had also experienced an increase in exports. Canada's exports had dropped back. World consumption of skimmed milk powder, which had increased in 1984, had levelled off in 1985. The decline had been more prominent in developed countries. Stocks of skimmed milk powder in the EC, North America and Oceania of approximately 1.1 million tons on 1 January 1986 had been 12.2 per cent lower than one year earlier. Prices of skimmed milk powder, which had ranged between US\$600-US\$650 per ton f.o.b. in the first quarter of 1985, had been between US\$750-US\$800 per ton f.o.b. in the last quarter of the year. The price range in the first quarter of 1986 had been US\$812-US\$860 per ton f.o.b. The depreciation of the United States dollar vis-à-vis other currencies and the lower level of production had contributed to some strengthening of prices. It had been noted, however, that the change in the procedure for fixing EC export refunds could introduce an element of uncertainty on the world market. It had been noted that prices of skimmed milk powder had been declining since the beginning of March 1986. Production of whole milk powder, which was closely related to demand conditions, had increased in 1985 but at a slower rate than in 1984. In the EC, the world's leading producer, output had declined slightly in 1985, while in New Zealand, it had increased. Production had also risen in Australia and Finland. In parallel with production, sales by the major exporting countries in 1985 had been above the previous year's level. EC exports had increased slightly, while deliveries by Australia and New Zealand had risen more strongly in 1985. International prices of whole milk powder, which had been weak in 1984

partly due to the depreciation of the US dollar, had fluctuated between US\$850 and US\$950 per ton in the first six months of 1985. However, the market had improved in the second half of 1985 and prices had ranged between US\$890-US\$1,010 per ton f.o.b. in the third quarter and US\$950-US\$1,000 per ton f.o.b. in the fourth quarter. That trend had been confirmed in the first quarter of 1986 when prices had ranged between US\$990-US\$1,050 per ton f.o.b.

10. The Committee of the Protocol Regarding Milk Fat noted that butter production had totalled 7.6 million tons in 1985, or about 1 per cent less than the previous year. It had declined in the EC for the second year in succession, and also in New Zealand, Australia, Poland, Finland and Canada. On the other hand it had increased in the United States and the USSR. The prospect for 1986 was that world butter production would remain close to the 1985 levels, and butter production was expected to decline in the EC, New Zealand, Finland and Poland. As a result of the increase in milk output in 1986, butter production in the United States and the USSR should continue to increase. In 1984 the market situation had been characterized by a high level of stocks, weak demand and strong competition, resulting in depressed prices. In 1985 the market situation had been improved somewhat by the slight rally in butter sales by certain major exporters. The butter exports of the EC had declined in 1985; those of New Zealand and Australia had increased. Exports from the United States and Finland had diminished. The prospect for 1986 was that exports of butter and anhydrous milk fat would decline, as import demand might remain weak and stocks high. Furthermore it appeared that competition between big suppliers would continue and would remain keen. The Committee also held an exchange of views on the specific problems of the butter trade. It was noted that the change in the procedure for fixing EC export refunds might introduce an element of uncertainty into the international market. Moreover apprehension was expressed regarding the United States export programme for dairy products. It was suggested that it would be useful to collect information on possible exports of butter by the United States under its new legislation. The Committee had received information from Australia and New Zealand on the deliveries of butter made under the Resolution of November 1984. The relevant document (DPC/W/50/Rev.3) would be revised

accordingly. So far no sales of old butter under the Decision of 31 May 1985 had been reported. However, the representative of the EC informed the Committee that the Commission had just adopted Regulation (EEC) No. 765/86 of 14 March 1986 laying down detailed rules for the sale of butter from intervention stock for export to certain destinations. He stated that any sales of butter would be effected in accordance with the conditions laid down in the Decision adopted by the Committee on 31 May 1985 (DPC/F/35). The EC notification would be circulated shortly. In 1985 butter consumption had improved in Eastern Europe, the USSR and Japan but had declined sharply in North America. It had decreased slightly in Oceania. A number of incentive measures had been taken but it was probable that world consumption would remain depressed. The total butter stocks of the EC, North America and Oceania (some 1.5 million tons on 1 October 1985) had been about 9 per cent below the levels recorded a year previously. The aggregate stocks of the EC, public and private, had fallen from 1.25 million tons on 1 October 1984 to 1.1 million tons on 1 October 1985. The public stocks of the EC had stood at 1.1 million tons on 13 March 1986. Despite special sales, large-scale export contracts with the USSR and other measures taken to reduce production, the high level of stocks had remained a source of serious concern. Stocks had also increased in New Zealand. In the United States stocks had been 20 per cent lower on 1 January 1986 than a year previously. Australian and Canadian stocks, for their part, had declined slightly in 1985. In the third quarter of 1985 the international prices of butter had ranged between US\$1,000 and US\$1,150 per ton f.o.b. and in the fourth quarter between US\$1,000 and US\$1,200 per ton f.o.b. In the first quarter of 1986 prices had been at, or very slightly above, the minimum price level. The price situation and the level of stocks thus continued to be a source of serious concern. In the case of anhydrous milk fat, production had increased slightly in the EC in 1985. On the other hand it had declined slightly in New Zealand and Australia. Exports from the EC had increased. Exports from New Zealand had weakened, whereas those from Australia had increased strongly in 1985. Prices had fluctuated between US\$1,290 and US\$1,650 in the first half of 1985 and had then relapsed to between US\$1,200 and US\$1,360 per ton f.o.b. in the second half of the year. It was thought that in the first quarter of 1986 they were at, or very slightly above, the minimum price level.

11. The Committee of the Protocol Regarding Certain Cheeses noted that world cheese production, at 12.7 million tons, had been almost 2 per cent greater in 1985 than in 1984. Most of the large-scale producers had contributed to that increase as a result of the general firmness of the market. World trade in cheese, which had risen steadily for several years had declined by 3 per cent in 1985, mainly as a result of substantial reductions in exports from the EC. Deliveries from Australia, Norway and Switzerland, on the other hand, had increased. Exports from New Zealand had remained at the same level. Two participants, New Zealand and South Africa, reported that they had effected cheese sales under the derogation provided for in Article 7, paragraph 2, and the Committee took note of their statements. Trade prospects for 1986 appeared favourable, as the world demand for cheese was expected to increase. However, fears were expressed that the decline in the earnings of the petroleum-exporting countries might weaken their demand for imports. Cheese consumption had continued to grow in 1985 and was reported to have been 3 per cent greater than the previous year. Except in a few countries, the demand for different types of cheese had risen steadily and was expected to rise further in 1986, especially for speciality type cheeses. At the end of 1985 world stocks of cheese had shown no change from the level recorded at the end of 1984. The stocks of the EC, which were normally fairly stable owing to the firmness of domestic demand, had increased in 1985, because demand had risen less than expected and because exports had declined as a result of severe price competition on the world market. In the United States too stocks had shown an increase at the end of 1985. In Australia they had declined slightly. In New Zealand they had been above the 1984 level. The stocks of other major producers were also reported to have increased. The international prices of Cheddar cheese, which had ranged between US\$1,100 and US\$1,430 per ton f.o.b. in the first quarter of 1985, had fluctuated between US\$1,000 and US\$1,300 in the fourth quarter. In the first quarter of 1986 they had ranged between US\$1,100 and US\$1,380 per ton f.o.b. Price competition had remained keen in certain markets.

12. At a joint meeting the Committees had continued their consideration of the question of adjustment of minimum prices according to fluctuations in exchange rates. The Committees noted that fluctuations in the exchange rate of the United States dollar had always been taken

into consideration hitherto when changes had been made in minimum export prices. Consequently the Committees saw no need to take their discussion on that subject any further, on the understanding that any participant might raise the matter again if he saw fit.

13. The next sessions of the Committees will be held consecutively on 16 and 17 June 1985 subject to confirmation by the secretariat.

14. The representative of New Zealand expressed his satisfaction with the report of the Chairman of the Committees and promised to make every effort to make this organization work as effectively as it could under the circumstances and to consider sympathetically any proposals put forward by any member of the Arrangement in a genuine attempt to ease difficulties faced by all. The discussion in the Protocol Committees had been rather difficult as recent developments had raised some rather fundamental issues about the functioning of the Arrangement. In light of some statements made in the past few days, he wanted to make clear that if faulty analysis was not from time to time challenged, it could increase perceptions which lead to policy difficulties for everybody. That fundamentally was the problem that New Zealand faced right now particularly with its dairy relationship with the Community and within this organization generally. As an illustration of the political pressures operating on New Zealand and on policy makers in Europe on this very issue, he referred to a statement made by the Chairman of the British Farmers' Union who had said: "We (i.e. Europe) are not prepared to go alone in the world. It is disgraceful that we should take drastic and painful measures to curb our milk production while other countries continue to expand rapidly." It was important to recognize what those pressures meant and it was necessary to impose some measure of order. The first step would be to establish some reasonable interpretation of the right set of facts. He suggested that the discussion in the Protocol Committees be assessed, in particular that of the latest very damaging extension of European subsidies, against some facts. New Zealand production accounted for 2 per cent of world dairy production and corresponded to 6 per cent of European production. In the last five years, even with the quota measures which New Zealand had welcomed publicly, the absolute increase in EC milk production had been

several times New Zealand's total annual production. Total world dairy trade represented 5 per cent of world production, but he would like to dissect the idea that that figure alone would suggest an active dairy export policy as a solution to the structural problems facing the sector. Looking at the total world market for dairy products, what did we see? For skimmed milk powder, the total world market (1984 figures) was 940,000 tons. About 600,000 of that was not in European hands, but the United States had about 267,000 tons. His reading of American politics would suggest that there was not the slightest chance in the present circumstances of the Community taking that off American hands through a subsidy war. What was left was perhaps 300,000 tons. For anhydrous milk fat, the total world market was 170,000 tons and that included food aid. The EC had 120,000 tons of that. The question whether the Community should be allowed to compete should be seen against the fact that only 50,000 tons on the total world market was not currently in European hands. For cheese, out of a total of 800,000 tons on the world market, the Community had over half, and a large part of the remainder was under quota controls. For whole milk powder, out of a total of 700,000 tons the Community had just a little over 500,000 tons. For butter and butteroil, out of a total of 490,000 tons, when deducting for sales to controlled markets and exports to the USSR, the total world market available for "competition" would be 230,000 tons, one quarter of Community butter stocks. One inference that could be drawn from that sort of analysis was that the world market is very small. Any subsidized exporter must come to terms with that fundamental fact and should be reminding his political masters of it. The world market was not a bottomless sink down which countries could pour their surpluses. That applied as much to the United States as to Europe and had on many occasions made its concerns very strongly known to the United States administration and would continue to do so. The other inference that could be drawn from the analysis was that nobody would gain from a knock-down, subsidy-led price, such as was currently being precipitated in the skimmed milk powder market. That strategy would not expand the market. In 1981 for example, skimmed milk prices were twice the current level and world dairy trade in skimmed milk powder, at 901,000 tons, was less than at the moment. Various statements made in the past few days suggested that the Commission might be looking at 1980/81 as the basis

on which judgements could be made. Now looking at what had happened it would be seen that in the period 1974-81, the international market for dairy products doubled in size from 15 million tons of whole milk equivalent to 30 million tons. New Zealand (the "biggest culprit") stayed static at about 5 million tons throughout that period. The EC had increased its market share five times, under the competitive disadvantage of publishing its subsidies. There were, however, a variety of special factors operating at that time; it was the end of a macro-economic upswing, petrol dollars were fuelling the current accounts of some major dairy importers, Australia suffered a critical drought and there was unrepeated demand in the USSR for dairy products. Because of the sheer size of its production, the Community was well placed to take advantage of the situation and it certainly did. The special refunds issue was just another manifestation of the fundamental dynamics of Community dairy policy for the last ten to fifteen years. As to the complaints from the Community about not being able to sell, he referred to figures tabled showing that Community butter exports in the first three quarters of 1985 had increased by 14.3 per cent and skimmed milk powder exports by 21 per cent. The political pressure might lead to another management change designed to overcome another short-term crisis but with very serious consequences for others. The reassurances given that this was for certain markets without the intention to drive prices down to the minima had not prevented the deterioration of the skimmed milk market, where nobody is prepared to buy until they are added to the ever-expanding list of markets referred to in the Committees. The longer-term consequence of this might be to make the GATT minima effective maximum prices, with income loss for all and a threat to the Arrangement itself. He did not accuse the Community of breaking international obligations but New Zealand had detailed calculations which suggested there was a grave threat that the traders may de facto cause the Community to be in breach of its obligations. New Zealand was committed to this Arrangement. If the Commission were seriously interested in discussing its difficulties with respect, for example, to the derogation on butteroil, New Zealand would be happy to do so. However, the special refund scheme would do nothing to help anybody, and he asked the Community as an immediate step to rectify what in his judgement was a clear policy mistake. He had not received

satisfactory explanations to a number of questions that had been asked about the operation and future of the scheme and was awaiting answers. When the roots of the problem had been correctly identified, then there was always the possibility that the Commission might look ahead to the new multilateral trade negotiations as an opportunity to start addressing long-term structural problems.

15. Stressing that his statement was unrelated to the issue of the deferral of the ministerial talks between Australia and the Community, the representative of Australia expressed the fear that 1986 might be the year in which international arrangements to provide a modicum of sense in international trade in dairy products were finally and completely dismantled. If this occurred, everyone would lose. If any major exporter believed that a collapse of the world dairy market could be a way to reduce cheaply the enormous surpluses stimulated by inefficient practices, they would find this to be an expensive solution. Major damage would of course also be sustained by efficient producers. The International Dairy Arrangement was already on its knees. The Community had shown its disregard for the Arrangement in 1984 when it sold a very large quantity of butter to the USSR at a price below the minimum price set in the Arrangement and was consequently found to have breached the Arrangement. Subsequently, the minimum prices for butter and butteroil were essentially suspended to allow other participants to safeguard their commercial interests. It took more than six months to restore the minimum prices for butter and butteroil and then only at a lower level. Then in an attempt to help the Community to overcome its continuing problem with old butter stocks, a derogation was adopted to enable large sales of old butter to be made at prices below the minimum, subject to certain safeguard provisions. The price discipline was restored at considerable cost to the Arrangement; firstly, the United States withdrew, something which substantially weakened the Arrangement's authority, and secondly, the confidence of the remaining parties that the Community was committed to the Arrangement was shaken. The Arrangement was plunged into a crisis of confidence. Into this environment of uncertainty and misgivings, the Community had injected yet another major cause for concern by introducing a system of flexible and confidential restitution payments for exports of dairy products.

This scheme could fairly be described as a secret export subsidy arrangement. Despite reports that these subsidies were at such levels as to allow and even encourage quotations and presumably sales of butteroil and butter at prices below the Arrangement minimum, the Community had refused to provide details of its subsidies and to demonstrate that they did not prejudice the Arrangement. Even under normal circumstances, such a programme would legitimately raise severe doubts as to whether the Community remained committed to the Arrangement and its central feature, the maintenance of a minimum price for exports. Parties should be acting transparently, thus avoiding doubts being generated about their practices and motives. An announcement that refunds were being paid but without disclosing the amount raised doubts, particularly when as a result offers could be made by Community traders at prices well below the Arrangement minima for at least some products. These were however not normal circumstances. The Community had introduced the new refund scheme at a time when the Arrangement was already under threat by the actions of the Community just over a year ago and by the uncertainty created by the Community's enormous surplus of dairy products. He felt that there was a clear inequity in the situation and that the new Community system of predatory subsidies represented a threat to the commercial markets of other participants. These participants had negotiated, accepted and implemented the mechanisms of the Arrangement in good faith and had acted responsibly with the expectation that all participants should rigorously observe the provisions of the Arrangement and not prejudice the interests of others. The Community had once again acted unilaterally and not used the opportunity to discuss its difficulties within the framework of the Arrangement. Its actions had caused an immediate drop in the price of skimmed milk powder in some markets by more than US\$100 a ton and needlessly reduced the returns to Australian and other dairy farmers by millions of dollars. In the view of the Australian Government, the situation was entirely in the hands of the Commission of the European Communities, which was called on to do three things:

- (i) to dismantle the scheme of secret refunds for exports of dairy products;

- (ii) to restore confidence and predictability in world dairy markets, and take the steps necessary to ensure the proper observance of the Arrangement by its traders; and
- (iii) to restore to efficient producers like Australian dairy farmers, the chance to compete fairly on the world market, in place of policies designed to squeeze them out.

He could not accept that the Community had any rights to try to enter traditional Australian markets with the help of new subsidies clearly intended to undercut the existing market prices and increase the Community share to those markets. He demanded that the Community exercise the utmost care not to destabilize markets traditionally of active commercial interest to Australia. The current problem should be addressed by a thorough and objective discussion of the Communities' problems within the framework of the Arrangement. The rescue operation mounted last year to save the Arrangement had undermined its credibility and he seriously questioned whether the result of another rescue operation would be worthwhile. Australia had demonstrated its unmistakable commitment to the Arrangement by the strong action taken to ensure observance of the price disciplines by its exporters, consistent with Article 3:1 of the Protocols, and was prepared to support a viable and credible agreement. It was not prepared to maintain a lop-sided commitment. All sectors of the Australian dairy industry and the Australian Government were becoming impatient and dissatisfied with the way the Arrangement was being operated and even manipulated. It was essential that Australian traders remain competitive, particularly in their traditional markets. If the situation developed, whereby in Australia's judgement, the basic commitment to the Arrangement by others had evaporated, Australian adherence to its terms was not being reciprocated, and continuing membership of the Arrangement was contrary to the export interests of the Australian dairy sector, the Australian Government would not hesitate to withdraw from the Arrangement. Australia would not accept arrangements in which its dairy trade interests were further threatened. He stressed that the Australian dairy industry was efficient and undergoing the second major restructuration in a decade, because

international markets had been dominated by subsidized produce from inefficient dairy industries in Europe and North America, which were not being restructured in any effective way. The present meeting constituted for other participants, especially the Community, an opportunity to demonstrate the bona fides of their formal commitment to the Arrangement, to make it clear beyond doubt that the steps taken were necessary to ensure its observance, and to show that adherence to the letter and intent of the Arrangement could be observed and monitored. He recalled the proposal introduced by Australia late last year that all participants report annually on what steps they have taken to ensure observance of the terms of the Arrangement. Adoption at this meeting of the proposal would serve as a touchstone of commitment to the Arrangement. Knocking the remaining underpinning out from under the Arrangement would have ramifications beyond the international dairy market and must be taken as the measure of an attitude to international trade arrangements in general. One would be forced to wonder what the difference was between the dairy and say the cereals sector. Everybody knew why the United States was about to embark on competitive subsidization of cereals. It was important that the Community's response would warn of the consequences and would suggest that the matter be settled in unheated consultation. This approach seemed difficult to reconcile with its chosen approach to date on dairy issues with its surpluses and subsidies being the cause of the problems in the sector. Finally, he recalled that contracting parties were in the process of preparing for a New Round of multilateral trade negotiations. The Community had strongly supported the New Round and so did Australia. Such rounds had traditionally provided opportunities to seek multilateral solutions to major trade problems. The International Dairy Arrangement emerged from the Tokyo Round and was seen to be an achievement in improving international co-operation in dairy trade matters. In the view of Australia, the forthcoming multilateral trade negotiations would be the place to address properly the problems of international trade.

16. The representative of the European Communities expressed some surprise with the complaints and accusations he had heard although there was little new in what had been said. Any judgement ought to be based

on the results achieved. He refused to accept that the Community had breached its commitments and upset the market. Over the years the Arrangement had been in operation, the Community's shares of the world market had declined, from 65 per cent to 47 per cent in the case of butter, from 59 per cent to 27 per cent in the case of skimmed milk powder and in the case of whole milk powder from 74 per cent to 65 per cent. It was therefore incorrect to say that the Community had gained. As to the application by the Community of export refunds, the complaints expressed brought little new and did not apply only to dairy products. He would merely stress that producers who claimed to be efficient ought to recognize that other producers were working in a different social and economic environment with different costs and were entitled to higher prices. The right to export could not be denied to them for that reason, and it was necessary to compensate for the gap between internal market prices and those on the world market. This was why the Common Agriculture Policy provided for export refunds and other participants applied comparable measures. A proof of the Community's intention to contribute to a more stable market was the introduction of production quotas and other measures to curb production which had already yielded tangible results. It could have done like others and restricted imports, and if the Community had not entered into a commitment to import a certain tonnage of New Zealand butter, it would not have had surplus stocks of the present volume. He contested that Community sales of butter to the USSR in 1984 were the reason why the United States had withdrawn from the Arrangement and thought that other participants understood that this was only a pretext for the United States to withdraw. The real reason was that the United States wanted to have freedom of action to dispose of its own surpluses of dairy products. There seemed to be a tendency to consider the particular butter sale to the USSR in 1984 as the crime of the century. It should not be forgotten, however, that others took advantage of the suspension of the minimum prices and sold even more butter than in previous years and at prices substantially below the agreed minimum prices. The Community had paid a heavy price for dropping off old surplus butter to the USSR, and had received little financial gain from the transaction. As to the complaints about the lack of transparency with relation to current Community procedures for fixing the amount of the export refunds on

dairy products, he explained that this had become necessary as it had been too easy for competitors to determine the prices at which Community exporters would be able to make offers. Furthermore, both Australia and New Zealand had not satisfied Community requests to show their cards and disclose details about the fixing of their export prices, which was handled by a single body in both these countries. It was nothing but fair that Community exporters could be put on the same footing as that of other countries. He could not see that the complaints by Australia were founded, but would be willing to examine any information on offers reported to have been made at a price lower than the minimum. The threat by Australia to withdraw from the Arrangement was a dangerous move and even a voicing of such a possibility could give rise to a process of reflection of that possibility in many countries, including member countries of the European Communities.

17. The representative of Uruguay found the statements of Australia and New Zealand to be a serious note of warning to which great attention ought to be devoted. After all the minimum export price provisions constituted the most valid part of the Arrangement. It would be regrettable if the present uncertainty about the market were to result in retaliation and chaos for an extended period of time. This would be particularly damaging to exporting developing countries who did not have at their disposition the financial means to subsidize dairy exports and were unable to sell, as world market prices at present were not matching production costs. It was regrettable that two signatories had left the Arrangement in 1985 and he shared the concern of the Community about the threat expressed by Australia to leave the Arrangement. That was a dangerous statement that could only weaken the Arrangement and aggravate an already difficult situation. He agreed with the view expressed by Australia that in the New Round of negotiations efforts should be made to seek solutions to the problems in international dairy trade and recalled that his delegation had expressed the view in the Preparatory Committee that the International Dairy Arrangement should be reviewed and revitalized in the new negotiations. It was important to have something more than just a forum for the exchange of information.

18. The Council took note of the reports of the Committees of the Protocols and of the comments made.

Replies to Questionnaire 4

19. 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 under review. On 18 February 1986, the secretariat had circulated a reminder requesting that relevant information be submitted by 14 March 1986. At the time of the meeting, replies had been received from the following countries: Argentina, Australia, Bulgaria, Canada, European Communities, Finland, Japan, Norway, South Africa, Sweden and Uruguay.

20. The representative of New Zealand apologized that the requested information for his country had not been submitted in time. He would, however, see to it that the relevant information was furnished shortly.

21. The Council took note of the information submitted and of the comments made.

Replies to Questionnaire 5

22. The Chairman recalled that the inventory of all measures affecting trade in dairy products, including commitments resulting from bilateral, plurilateral and multilateral negotiations was due for a complete update and revision. According to Article III of the Arrangement, and to Rules 23 and 29 of the Rules of Procedure, the full text of the inventory should be distributed to participants at the beginning of each three-year period. The Arrangement had entered its third three-year period of operation in January 1986. He consequently urged all participants that had not already done so to take the necessary steps to ensure that the relevant information would reach the secretariat in the near future.

23. The Council took note of document DPC/INV/3/Rev.1 which showed the state of the inventory. It furthermore noted a statement by the representative of New Zealand that the information submitted by his delegation as included in the DPC/INV/2/- series was complete.

Proposal by Australia concerning provision of information on the measures taken to ensure the observation of the minimum export prices

24. The Chairman recalled that at its meeting in September 1985, the Council had had a first discussion of a proposal by Australia suggesting that participants should report more fully on their measures applied to implement obligations incurred under the Arrangement. At that time, the Council just took note of the proposal as contained in DPC/W/52 and of comments made and agreed to retain the question on the agenda. Records of that discussion were included in document DPC/24, paragraphs 19 to 33. At the December 1985 meeting of the Committee of the Protocol Regarding Milk Fat, the representative of Australia had made another statement which was recorded in the report of that meeting (DPC/F/41, paragraph 31). At the September 1985 meeting of the Council, participants had been invited to submit concrete proposals on the matter, but only Australia had responded to that. The latest Australian submission had been circulated in document DPC/W/57 and Australia had also presented a draft decision (DPC/W/60).

25. The representative of Australia felt that the current situation and the discussion of the matter so far had provided a raison d'être for adopting a decision as proposed by her delegation in DPC/W/60, and call upon participants to provide the details on their measures adopted to ensure observance of the minimum prices by the time of the meeting of the Committees of the Protocols in June 1986. She called in particular upon the Community to provide a complete notification in light of the very serious concerns that had been expressed with regard to the Community's capacity to observe the agreed minimum export prices when applying its new secret procedure for granting export refunds on dairy products. A Community notification along the lines suggested would constitute a bona fide demonstration of goodwill on its behalf. It was not the intention of Australia's proposal to secure any uniform system of measures because different members' measures would consequently reflect their own marketing arrangements, nor was it Australia's intention to be critical of particular members. Australia's concern was to strengthen the Arrangement and to ensure that the market had confidence in its disciplines. If that was not the case then governments would come under pressure to ensure that their own

industries and traders were not disadvantaged. In order to have the confidence of the trade it was necessary to show that trading decisions were based on firm, credible guidelines. This was the *raison d'être* of the minimum export prices, and their observance could only be reinforced through greater transparency. This was why Australia considered it essential for participants to report as proposed in the Draft Decision (DPC/W/60). It seemed to her to be an anomaly that relevant trade measures had not been covered by the reporting procedures from the start of the Arrangement in a manner similar to the reporting procedures applied under the GATT agreements concerning anti-dumping, customs valuation and import licensing with respect to notification of legislation. Recent rumours and allegations of offers and sales of butter and butteroil to the USSR and other destinations at prices below the minima and the introduction by the Community of a practice to grant export refunds without publishing the amount of those refunds had increased Australia's concerns, created uncertainty and prejudiced the credibility of the Arrangement in the eyes of traders. The credibility had to be restored in order to ensure the viability of the Arrangement. Australia accordingly invited the Council to adopt the proposed decision and urged participants to provide details on their measures to ensure observance of the minimum prices by the June 1986 meetings of the Committees of the Protocols. In particular it was important that the Community notified as suggested.

26. The representative of the European Communities was not in a position to adopt the Draft Decision in document DPC/W/60. He could not see that more detailed notification would be necessary, as Community regulations were regularly published. The fact that the amount of the refunds on exports of dairy products were no longer published did not change anything. The purpose of the refund remained to be to cover the difference between domestic prices and prices in the world market, nothing more. A more flexible procedure of fixing the refunds should in fact make it easier for the Community to observe the minimum price provisions of the Arrangement. If other participants had proof that the Community had breached the Arrangement, they should present a formal complaint and allow an examination of the case to be made. He added that it might be useful to have more information about the pricing practices of the New Zealand Dairy Board and the Australian Dairy Corporation.

27. The representative of Uruguay found it reasonable that participants should provide full information on measures and mechanisms applied by them to ensure observance of the minimum export prices. No-one should feel hurt by having to do so. In Uruguay, the observance of the provisions of the Arrangement was enforced by legislation and there was a penalty for contravening that. There was close co-operation between the Chamber of Dairy Products and the Directorate of Foreign Trade and consultations were held whenever the minimum prices were changed. Private operators always had the possibility of availing themselves of regulations in force.

28. The representative of New Zealand had carefully studied the matter and his Government could support the adoption of the Australian proposal, but would not go as far as supporting a request for participants to prove their innocence. He considered that the Australian proposal if adopted would be a useful device for the national administration to fight allegations by traders of breaches of the agreed price provisions by other participants, notably in the field of skimmed milk powder. He added that the procedure in New Zealand was very simple. The New Zealand Dairy Board, as the sole exporter of dairy produce, was expected to abide by the international rules of commerce accepted by the Government of New Zealand. Accordingly the Dairy Board accepted the operational guidelines conveyed to it by the New Zealand Government. In the event that these guidelines were not complied with, the Minister of Agriculture in terms of Section 15 of the Dairy Board Act 1961 might instruct the Board to comply with the trade policy of the Government of New Zealand.

29. The representative of Japan had forwarded document DPC/W/60 to his authorities, but did not yet have any reaction to it or any instructions on it. He would nevertheless already at this stage draw the attention of the Council to the difference in obligations of exporters and importers referring to Article 6 of each of the Protocols.

30. The Council took note of the proposal by Australia suggesting that participants should report more fully on their measures applied to implement obligations incurred under the Arrangement, notably those related to the minimum price provisions (DPC/W/60). It also took note

of comments made relating to that proposal. It appeared not to be possible to reach full agreement on the matter at this meeting, due to a lack of consensus and as some delegations wanted to refer the text of the proposal back to their capitals and seek further instructions. The Council agreed to retain the Australian proposal on the agenda for the next meeting of the Council, it being understood that all participants were invited to provide as complete information as possible for inclusion in the inventory of measures affecting trade in dairy products.

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

31. The Council had before it documentation prepared by the secretariat for the discussion of this item: a status report on the world market for dairy products (DPC/W/54), a note on food aid operations relating to dairy products (DPC/W/56), a statistical note on milk deliveries and production (DPC/W/53) and three summary tables which had already been examined by the Committees of the Protocols (DPC/P/W/32, DPC/F/W/22 and DPC/W/C/30). The Chairman suggested that the discussion be organized under five sub-headings: (i) dairy policy matters; (ii) total milk production; (iii) dairy products not covered by the Protocols; (iv) transactions other than normal commercial transactions; and (v) the situation and outlook in general. This was accepted by the Council. It was also noted that parts of DPC/W/54 and the statistical information had been considered in the Committees of the Protocols.

Dairy policy matters

32. The Chairman invited delegates to make comments on dairy policy matters, supply management policies, price policies and trade policies.

33. The representative of the European Communities reported that the Commission had recently submitted to the Council of Ministers its proposal for prices for 1986/87, suggesting no increase in the price of milk to farmers. This was a politically difficult proposal as it meant a reduction of the price in real terms. Furthermore, it had been

suggested that the price relationship between fat and non-fat solids be changed to 46.13:53.87. Only a few years ago the ratio had been 50:50. The quota system and levies on production would be maintained for a five-year period. It was proposed that payments of levies be made half-yearly in order to discourage production in excess of quotas which tended to take place in the first half of the year. The co-responsibility levy would be maintained at 2 per cent. Attempts would be made to reduce production further by buying back quotas from producers. Then there had recently been a change in the procedure for fixing export refunds which had already been discussed.

#### Milk production

34. The representative of the European Communities reported that as a result of the various measures taken, production and deliveries of milk in 1985 declined by 4 per cent and a further reduction was the aim over the next three years. At the same time, it was their aim to stimulate the consumption of milk and dairy products.

35. The representative of Argentina also reported a decrease in milk production in 1985, while milk consumption had increased slightly.

36. For Australia a marginal decline in national milk production was expected for 1985/86 compared to the previous year. It was expected that total production would slightly exceed 6 billion litres in 1985/86.

37. In South Africa, milk production had continued to increase by 7.5 per cent in 1985. It appeared, however, that the upwards trend had halted and that production would be down slightly in 1986. In Japan milk production had risen by 3 per cent from 1984 to 1985 (fiscal year). Demand for milk for drinking had not been as strong as previously and there had been a 10 per cent increase in the use of milk for processing.

38. The representative of Switzerland reported that milk deliveries had declined by 3.1 per cent for 1984 to 1985, but that a slight increase was expected in 1986. In Sweden milk deliveries had fallen by 2.6 per cent from 1984 to 1985 and were expected to decline by another 2 per cent in 1986. In Finland milk deliveries fell by 4.3 per cent from 1984

to 1985 and were expected to settle at a level of 2.75 billion kilogrammes, as a result of policy efforts to contain production. In Bulgaria milk production had declined by 11 per cent from 1984 to 1985. Canadian milk production for 1985 slightly exceeded 8 million tons, showing a decline of 2.7 per cent compared to the previous year.

#### Dairy Products not covered by the Protocols

39. The Chairman invited comments on the chapter on this subject and mentioned that the secretariat would appreciate guidance as how to adapt the chapter more closely to the need for such information and otherwise complete or improve the chapter.

40. The representative of Uruguay asked the secretariat to keep the Council informed about the examination of casein imports being carried out in the United States (DPC/W/54, paragraph 129).

#### Transactions other than normal commercial transactions

41. The Chairman invited members of the Council to comment on document DPC/W/56 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. This should be done in co-operation with the FAO, and transactions should be effected in accordance with the FAO principles of surplus disposal. Participants 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 1986 (documents DPC/W/55 and 59).

#### The situation and outlook in general

42. The Chairman suggested, in winding up its discussion on this item, that the Council should keep in mind the provisions of Article IV of the Arrangement. It would therefore seem appropriate to make an evaluation

or assessment of the world market situation and outlook for dairy products in general or for one or more products. He invited comments on the summary chapter called "Resumé of the situation" in document DPC/W/54.

43. The representative of New Zealand agreed with the conclusion drawn in document DPC/W/54 and the concerns expressed with respect to the market for milk fat. She also agreed that the situation was not uniformly bad and noted the indications that the market outlook for skimmed milk powder and cheese was good, with decreasing stocks and prices comfortably clear of the level of minimum export prices. She welcomed the measures taken by several countries to limit or reduce milk production and expressed the appreciation of her delegation therefor. Her major concern at present was the change in the Community procedure of fixing refunds on exports of dairy products which had caused uncertainty, notably as to how the market for skimmed milk powder would develop.

44. The representative of Australia shared the views expressed by New Zealand regarding the effect of the Community's new system of export refunds on the stability of the international dairy market. She stressed that the report of the IDA meetings this week should clearly reflect the very serious concerns expressed by several delegations at the destabilizing effects of the recent changes in the Community procedures of fixing export refunds. The new procedures were of concern because they had resulted in increased refunds, which were not now published and which were targeted at special destinations.

45. The Community representative replied that there was no real change in the system of export refunds. All Community regulations were published in the Official Journal and it was only the amount that was no longer published for all of the refunds granted. The differentiation according to destination was an improvement and allowed the Commission to apply a more correct and fair amount of refunds, but he noted that this seemed to have stimulated the curiosity of other participants in the Arrangement. He would also appreciate it if all that had been said could be faithfully reflected in the reports of this week's meetings. He noted that a couple of delegates had given a rather gloomy picture of

the market situation, and he felt that this reflected some panicking among certain exporters. The Community had even considered suggesting an increase in the minimum export prices if the dollar continued to fall, but this idea had met with a negative response from other exporters. He regretted that Australia had threatened to leave the Arrangement as this could only incite some countries to adopt pricing policies not wanted by members of the Council, and effects on the world market were bound to be bad. In his view, the United States behaviour in the dairy market would be of utmost importance. If the United States went ahead and implemented the requirements of the Food Security Act of 1985 to dispose of 100,000 tons of butter and 20,000 tons of cheese on the world market before September 1986, this could have disastrous effects. The world market could just not absorb another 100,000 tons of butter. The Community was at present unable to compete with others, including non-participants in the butter market. It was unable to sell. There should be no reason to be afraid of the Community; it was unable to export significant quantities at any price, because of lack of funds available to finance the refund required. It had not yet been able to conclude sales of old butter to the USSR as had been hoped. The Community had adopted measures to limit production of milk, and had achieved a reduction in supplies. He just hoped that the benefits of the Community efforts would not be nullified by senseless increases in milk production in other countries.

46. The Council took note of documents DPC/W/54, DPC/W/56 and the statistical information contained in documents DPC/W/53, DPC/P/W/32, DPC/P/W/22 and DPC/C/W/30, and of the fact that some delegates would submit detailed comments directly to the secretariat. The Council also took note of the comments made during its discussion of this item.

47. The Council expressed its concern at the serious situation in the butter market and stressed that close co-operation was absolutely necessary for the solution of the current problems relating to production, trade, stocks and prices of butter and milk fat. It noted that the Committee of the Protocol Regarding Milk Fat had commenced its consideration of possible steps to be taken to resolve the problems facing butter trade, in accordance with the request of the Council.

Item F - Tentative schedule of further meetings

48. The Chairman recalled that, at the September session, the Council had adopted a tentative schedule of regular meetings in 1986, according to which the next meeting of the Council will take place on 25-26 September 1986 (DPC/24, paragraph 56).

Item G - Note by the Chairman

49. 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 fourteenth session on 20 March 1986.

2. Mr. J. Viganó (Argentina) was re-elected Chairman for 1986/87 and Mr. G.A. Stünzi (Switzerland) was re-elected Vice-Chairman of the Council.

3. Under Rules 11 and 14 of the Rules of Procedure, the Council invited representatives of Mexico and Panama and representatives of the Economic Commission for Europe, FAO, IMF, OECD and UNCTAD to attend the session as observers.

4. 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 concerns expressed with regard to the situation in the market for the products covered by the Protocols.

5. While the market for some dairy products had shown appreciable improvement throughout the second half of 1985 and early in 1986, the market for butter and anhydrous milk fat continued to be adversely influenced by the presence of abundant supplies and

burdensome stocks. For the first quarter of 1986, butter prices had been at, or just slightly above, the agreed minimum export price of US\$1,000 per ton f.o.b. and the situation continued to be one of serious concern. Since the beginning of March 1986, there had been a fall in international prices for skimmed milk powder.

6. It was noted that the European Communities had recently changed their procedures for fixing export refunds for dairy products, and that this could represent an element of uncertainty for the market. This point of view was however not shared by the Community representative, who stressed that the European Communities would continue to observe the provisions of the Arrangement. It was also feared that any dairy exports by the United States under the Food Security Act of 1985 could further aggravate the situation in the world market, notably for butter.

7. 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. It was recalled that the inventory based on replies to questionnaire 5 was due for a complete updating and revision, and participants who had not yet done so were urged to take the necessary steps as a matter of urgency to ensure that the relevant information would be submitted to the secretariat.

8. The Council took note of a proposal by Australia suggesting that participants should report more fully on their measures applied to implement obligations incurred under the Arrangement, notably those related to the minimum price provisions. It also took note of comments made relating to that proposal. It appeared not to be possible to reach full agreement on the matter at this meeting, due to a lack of consensus and as some delegations wanted to refer the text of the proposal back to their capitals and seek further instructions. The Council agreed to retain the Australian proposal on the agenda for the next meeting of the Council, it being understood that all participants were invited to provide as complete information as possible for inclusion in the inventory of measures affecting trade in dairy products.

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/54), a note on food-aid operations (DPC/W/56) and relevant statistical information. The Council took note of the documents and the comments made.

10. The Council expressed its concern at the serious situation in the butter market and stressed that close co-operation was absolutely necessary for solution of the current problems relating to production, trade, stocks and prices of butter and milk fat. It noted that the Committee of the Protocol Regarding Milk Fat had commenced its consideration of possible steps to be taken to resolve the problems facing butter trade, in accordance with the request of the Council."

50. This was agreed by the Council, and the note was circulated in document L/5971, dated 21 March 1986.

51. The fourteenth session of the International Dairy Products Council was then closed.