

# GENERAL AGREEMENT ON

RESTRICTED

Spec(88)2

11 February 1988

## TARIFFS AND TRADE

---

International Dairy Arrangement

COMMITTEE OF THE PROTOCOL REGARDING CERTAIN CHEESES  
COMMITTEE OF THE PROTOCOL REGARDING CERTAIN MILK POWDERS  
COMMITTEE OF THE PROTOCOL REGARDING MILK FAT

Thirty-Second Session - Joint Meeting

Draft Report

Introduction

1. In pursuance of the new approach adopted, the three Protocol Committees held a joint session on 14-15 December 1987, to deal with certain routine matters concerning the working of the three Protocols. The report of the joint meeting of the three Protocol Committees is being incorporated in the report of the meeting of the Committee of the Protocol Regarding Milk Fat. The reports of the Committee of the Protocol Regarding Certain Milk Powders and of the Committee of the Protocol Regarding Certain Cheeses contain cross-references to what is included in this report with respect to the joint meeting.

Adoption of the agenda

2. The Committees adopted the following agenda:
- A. Adoption of report on the thirty-first session
  - B. Information required by the Committee:
    - (i) Replies to Questionnaires (respectively  
Questionnaire 3: Certain Cheeses  
Questionnaire 1: Certain Milk Powders and  
Questionnaire 2: Milk Fat)
    - (ii) Summary tables
    - (iii) Other information

- C. Transactions other than normal commercial transactions
- D. Sales under derogation
- E. Review of the market situation for products covered by the Protocol
- F. Improvement in working methods
- G. Adoption of report to the Council
- H. Other business

Adoption of reports on the thirty-first session

3. The reports on the thirty-first sessions were adopted with certain amendments by the three Protocol Committees and distributed as documents DPC/C/48, DPC/P/50 and DPC/F/52 respectively.

Information required by the Committees

(a) Replies to Questionnaires 3, 1 and 2

4. The Committees reviewed the replies to questionnaires 1 to 3 and requested participants who had not yet communicated such information in respect of the third quarter of 1987 to do so without further delay. They were also requested to submit information regarding the fourth quarter of 1987 by 15 March 1988 at the latest.

(b) Summary tables

5. The Committees reviewed the summary tables based on information provided by participants in Tables A and B of the Questionnaires in respect of the third quarter of 1987 and issued respectively in documents DPC/C/W/33/Rev.2, DPC/P/W/33/Rev.2 and DPC/F/W/27/Rev.2.

(c) Other information

6. The Committees took note of the statistical information which the secretariat had compiled on production, trade (including food aid), stocks and consumption of dairy products in the United States. Data related to the third quarter of 1987 and also gave forecasts for the fourth quarter of 1987.

7. The Committees were also informed that no significant sales had been made under the United States new Dairy Export Incentive Program adopted in February 1987. The secretariat was, nevertheless, closely following the program and would keep the Committees informed of any future developments.

Improvement in working methods

8. The Committees agreed to pursue the consideration of improvement of working methods at their next regular meetings. The Chairman was authorized to hold further informal discussions on the matter in the meantime.

Adoption of reports to the Council

9. In accordance with Article VII:2 of the Arrangement and Rule 22 of the Rules of Procedure, the Committees adopted reports of the three Committees on the thirty-second sessions held on 14 and 15 December 1987. These were distributed in documents DPC/C/49, DPC/P/51 and DPC/F/53.

Dates of the next sessions

10. The next sessions of the Committees will be held consecutively on 21 and 22 March 1988, subject to confirmation by the secretariat. The session of the Committee of the Protocol Regarding Milk Fat will be followed by the Committee of the Protocol Regarding Certain Cheeses and then the Committee of the Protocol Regarding Certain Milk Powders.

---

COMMITTEE OF THE PROTOCOL REGARDING MILK FAT

Thirty-Second Session

Draft Report

Agenda items A, B, F, G and H

1. As agreed by the Committee, agenda items A, B, F, G and H were discussed at a joint session of the three Protocol Committees and have been incorporated in this report.

Transactions other than normal commercial transactions

2. The Committee noted that no further sales had been reported by the participants since the EC notification DPC/F/W/31 and Add.1 dated 18 September 1987, indicating sales of 6,000 tons of aged butter each to Egypt and Algeria under Article 3:7 for social and welfare purposes.

Sales under derogations

3. The Committee took note of the EC notification DPC/F/W/26/Add.4 in relation to the Decision adopted of 31 May 1985 (DPC/F/35), concerning sales of the outstanding 200,000 tons of old butter to the USSR and of the additional information furnished by the EC regarding the dates of its actual shipment.

4. The representative of Australia informed the Committee that consultations had been held with other participants regarding the application of the Committee's Decision of 2 June 1987 (DPC/F/48) and in the light of consultations Australia was of the view that any further traditional sales of butter to the USSR notified to the Committee in 1987 would be consistent with the determination of 2 June 1987, with shipments to be completed as early as possible in 1988.

5. Australia, however, emphasized that paragraph 4 of the Decision of 31 May 1985 (DPC/F/35) conferred certain rights on Australia that had not been met at that stage. Accordingly, Australia reserved its rights to come back to the Committee if Australia was unable to conclude its traditional sales of butter to the USSR in a manner consistent with its rights as a traditional seller. (This statement was distributed as DPC/F/W/33.)

6. The Chairman observed that after consultations among the participants the following text had emerged which could be adopted: The Committee took note of the Australian statement (DPC/F/W/33) and agreed that shipments relating to traditional sales of butter contracted and notified up to 31 December 1987 by traditional suppliers in terms of paragraph 4 of the Decision of 31 May 1985 and which could not be effected before the end of 1987 shall be deemed to be consistent with the Decision of 2 June 1987 if such shipments were finalized in early 1988. (Text circulated in document DPC/F/53.)

7. The representative of New Zealand said that his delegation was prepared to go along with the proposed text. His delegation considered that paragraph 4 of the Decision of 31 May 1985 (DPC/F/35) conferred certain rights on New Zealand that had not been met at that stage. Accordingly, his country reserved its right to come back to the Committee if it was unable to conclude its traditional sales of butter to the USSR in a manner consistent with its rights as a traditional seller to this market.

8. The representative of Finland, on behalf of the Nordic countries, expressed his willingness to join the consensus in regard to the proposed solution, even though he was not able to see what concrete views could be adopted in respect of its substantive contents. The Nordics also considered that paragraph 4 of the Decision of 31 May 1985 conferred certain rights that had not been met at that stage. Accordingly, they also reserved their right to come back to the Committee if they were unable to conclude their traditional sales of butter to the USSR in a manner consistent with their rights as traditional sellers.

9. The spokesman of the Community agreed that all member countries had a right to make reservations since there was a possibility of invoking a derogation under the Arrangement if they were confronted with special problems. The Committee could meet to accept or to refuse any such requests for derogations. The EC, however, wished to emphasize that as from 1 January 1988 an explicit objective of the Committee should be to ensure that minimum prices were respected including in the USSR, the special and the largest world market for butter. This market should be regained with reasonable prices, making it unnecessary for countries like Uruguay to have to pay large export subsidies which they could not afford. It was in the interest of all the participants that minimum prices were implemented from 1 January onwards. It was not an automatic right to sell butter to the USSR at below the agreed minimum prices. On the contrary, all the participants had a common interest to see that reasonable prices were obtained even in the Russian market.

10. The representative of Uruguay said that even though he did not agree with the proposed solution, he would not stand in the way of the consensus. His country closely shared some of the common concerns with Australia in the Cairns Group and the Negotiating Group on Agriculture, but it was also evident that they had been pushed out of the USSR market for butter exports as a result of such decisions.

11. Summing up, the Chairman concluded that the above-mentioned agreement had been adopted and that the Committee had taken note of all the related statements which would be reflected verbatim in the report.

#### Review of the market situation for products covered by the Protocol

12. The spokesman of the Community observed that the general dairy situation, after being in the doldrums, had somewhat improved more recently. The number of cows had declined by 6 per cent in 1987 for the fourth consecutive year and the overall dairy production had been reduced by 5.3 per cent. The major victims of the decline in milk production had been

butter and skimmed milk powder, the output of which dropped respectively by 16.3 per cent and 24.1 per cent. Cheese output increased by a modest 2.5 per cent in contrast to a 10 per cent increase in the production of whole milk powder. The sharp increase in the production of whole milk powder, however, was accompanied by a drop in the production of condensed milk, the import demand of which was to the same extent reduced due to the growing tendency in the traditional importing countries to use their own domestic water for manufacturing condensed milk.

13. Butter output, which fell by 16.3 per cent in 1986/87 was forecast to decline further by 5 to 6 per cent in 1987/88. The Community intervention stocks of butter on 12 November 1987 amounted to over 1 million tons, of which the non-committed available stocks were about 913,000 tons. Stocks in private storage, but financed by public funds, amounted to 168,000 tons. Average export price for fresh butter fluctuated between US\$1,000 and US\$1,200 per ton, f.o.b. and for butter oil at around US\$1,200 per ton f.o.b.

14. Looking ahead, he added that the introduction of EC milk quotas had led to an effective reduction in milk supplies and thus firming up of some dairy product prices. In this connection, two proposals were actively being considered by the Commission. One recommendation of the Commission was that the existing quota system should be continued for at least another 2-1/2 years. The other proposal was that the modified system of refunds should be continued. Efforts to reduce dairy production and exports, however, had meant a great financial sacrifice on the part of the EC member countries. A more balanced situation was likely to be achieved in the Uruguay Round where other major producers would also hopefully join in these efforts at the global level.

15. Another member of the EC delegation, while supporting the view that the Uruguay Round would have important repercussions on dairy trade, suggested that as an interim emergency measure, however, countries like Canada, the United States and Austria should join the International Dairy

Arrangement in order to make it more credible and more effective. The recent improvement in dairy product prices, expressed in terms of dollars, had made it necessary to increase the GATT minimum prices. A similar increase in the butter minimum price could be envisaged provided the present efforts to control production were shared by all major exporters.

16. In response to the Australian comment that dairy production should be reduced mainly by those countries whose higher subsidy levels had led to artificially stimulated production levels and had kept domestic consumption at a lower level, he reiterated that every necessary measure was being taken to control domestic production and to liquidate huge stocks without disrupting the normal channels of trade.

17. The representative of Switzerland informed the Committee that milk deliveries over the past ten years had been regulated by producers themselves under an effective quota system. During the January-October 1987 period such milk deliveries amounted to 25,138 tons as against 25,977 tons in the same period of 1986, showing a cut of 3.2 per cent. As regards butter, production fell by 7.8 per cent to a level of 23,500 tons during the first nine months of 1987 as compared to 25,500 tons in the corresponding period of 1986. Imports during the third quarter of 1987 shot up to 1,800 tons from 1,400 tons in the third quarter of 1986. Consumption of butter in the first nine months of 1987 at 28,300 tons showed a drop of 3.3 per cent as compared to a figure of 29,300 tons in the same period of last year.

18. The Swedish delegate said that butter production remained stable in the third quarter of 1987 compared to its level in the same quarter of 1986. However, imports and exports of butter increased. The forecast for production in 1987 was that it would decrease somewhat.

19. The delegate of Norway indicated that milk production had somewhat increased due to a recent relaxation in the quota system. It was, however, expected that production would be curtailed next year, which would in turn

affect the output of all dairy products. Butter output was slightly higher this year but stocks were lower and exports were more than last year. Production would, however, drop next year when milk production would be reduced.

20. The representative of Finland recalled what he had indicated at the September meeting that his country had poor harvests as a result of the winter frost which led to a delay in sowings and heavy rains which resulted in poor yields. The yields of wheat and rye fell by 41 per cent, while those of feedgrains like barley and oats dropped by 37 per cent. The yield of hay and silage, however, dropped only marginally. There was thus no real shortage of fodder as a whole. Some regional feedgrain shortages, however, resulted in financial difficulties for certain farmers. Poor harvests also meant lower dairy production. Milk deliveries in 1987 totalled 2,695 million litres, i.e. 3.8 per cent less than in 1986. The downward trend was likely to continue until the beginning of next summer and the forecast for 1988 was lower milk deliveries in the range of 2,620-2,660 million litres. As regards butter, production in 1987 was expected to drop by 3 per cent to 69-70 thousand tons from 72 thousand tons in 1986. Consumption remained stable and average export price of butter in the third quarter of 1987 was reckoned at around US\$1,057 per ton f.o.b.

21. The representative of South Africa mentioned that milk production in his country continued to be lower, affecting the output of all dairy products except for cheese. Butter output decreased by almost 40 per cent in 1987, while its consumption remained relatively stable at a low level.

22. The Polish delegate told the Committee that butter production in his country did not correspond with the overall domestic requirements and thus huge quantities had to be imported. Imports in the first quarter of 1987 amounted to 15,000 tons, 14,000 tons in the second quarter, none in the third quarter and around 14,000 tons in the fourth quarter. Replying to an EC question at what prices butter was imported, he added that the IDA minimum price was paid.

23. The representative of New Zealand agreed with the remark made earlier by the EC spokesman that the current dairy situation, with the exception of the butter and butter oil sector, had shown some improvement after having been unsatisfactory for some time. This improvement, which was not merely a reflection of favourable monetary developments, was due to certain necessary and painful adjustments by the major producers. The efforts of the Committee of the Protocol Regarding Milk Fat in this connection had also contributed to restructuring the economic fundamentals. The upturn was, however, fragile and could only be sustained if accompanied by further adjustments by the European Community and the United States. New Zealand's own production, fluctuating within a narrow band of 6 to 8 million tons of whole milk equivalent annually for the last twenty years, was only a small percentage of the total world dairy production. Fluctuations in the dairy production of the EC and the United States could be rapid and sizable with a very strong and immediate effect on the volume of world trade. For example, an enormous drop in the uncommitted CCC stocks of skimmed milk powder from 250,000 tons in October 1986 to 17,000 tons currently could not go unnoticed. Similarly, a drop in the EC butter production by as much as 221,000 tons in the first eight months of 1987, which was very close to New Zealand's total annual butter production, was certain to influence the course of world dairy trade. The present improvement in the dairy situation was therefore due to these fundamental changes in the world's two largest dairy producers. Since the necessary political support given to the measures was still fragile, the long-term outlook for a sustained improvement was also uncertain. He believed that appropriate structural solutions and trade liberalization in the wake of the Uruguay Round would positively influence the world dairy situation.

24. The representative of Japan indicated that mainly as a result of production controls, domestic milk production in fiscal year 1986 was 1 per cent less than in 1985. This trend was continuing in 1987. Due to lower milk production, butter output in fiscal year 1986 was 11 per cent smaller to total 81,000 tons. Butter stocks were, however, still very high due to a stagnation in demand. In fiscal year 1987, production continued to decline and from April to September fell by almost 20 per cent as compared to its

level in the same period of 1986. Imports of butter in 1986 were 3 per cent below the level in 1985, but in the first nine months of 1987 were 16 per cent higher than their level in the corresponding period of 1986. Average import price in 1986 was reckoned at US\$1,401 per ton c.i.f., which was 13 per cent lower than its level in 1985. In the first ten months of 1987, however, the average had been US\$1,557 per ton c.i.f.

25. The representative of Bulgaria said that agricultural production in his country had been adversely affected by bad weather conditions. Dairy production was also lower due to the same reasons. While butter output was lower, due to smaller milk production, there were no imports or exports of butter in the third quarter of 1987.

26. The representative of Australia said that milk production during the third quarter of 1987 was 1,494 million litres, up 2.4 per cent on the production in the corresponding period in 1986/87 when it was 1,459 million litres. Production in 1986/87 was of the order of 6,176 million litres which was 2.3 per cent higher than in 1985/86, mainly due to improved seasonal conditions. Milk production for the first six months of 1987 was 2,532 million litres, showing a 7.6 per cent increase over a production of 2,353 million litres in the corresponding period of 1986. An output of 6,100 million litres was now being forecast for 1987/88, which would be slightly below the level of 6,176 million litres in 1986/87.

27. As regards butter/butter oil (commercial butter equivalent), he said that production in the July-September quarter of 1987 at 20,700 tons was 6.8 per cent below the level of 22,200 tons in the corresponding period in 1986, mainly due to the increased production of non-Cheddar cheese and whole milk powder. Butter/butter oil production for 1987/88 was estimated at 93,000 tons, which was 10.4 per cent below the previous year's production of 103,800 tons. Domestic sales of butter/anhydrous milk fat were expected to decrease marginally in 1987/88 to 55,500 tons from 56,200 tons in 1986/87. Exports for 1987/88 were expected to be 55,000 tons, leaving closing stocks of around 15,000 tons as against actual exports of 35,000 tons in 1986/87. The increase in exports was due to improved prospects for sales during the next year, including a possible significant sale to the USSR.

28. Referring to the world situation, he observed that the international market remained weak with prices of both butter and anhydrous milk fat at their respective IDA minimum prices, with some sales reportedly falling below the minima. Recent large EC butter sales to the USSR, together with an extensive domestic disposal scheme, should significantly reduce EC stocks. However, the large EC sales had effectively closed the USSR market for butter sales at or near the IDA minimums by other exporting countries. While world production and stocks of butter/butter oil were gradually decreasing, prices were expected to remain depressed during the remainder of 1987/88.

29. The Hungarian delegate informed that the drop in the general cattle number, which began in the 1980's continued in 1987 when the count showed 1.7 million head with a proportionate drop in the dairy cow numbers. However, there was no drop in milk output due to increased yields per cow. No change was expected in this trend during 1988, although it was difficult to rule out a drop in the total milk production in the long run due to a continuous drop in cow numbers. Butter production also remained unchanged at the previous level of 31-32 thousand tons annually. However, consumption increased to 33-34 thousand tons from the previous level of 30 thousand tons. Exports, which were substantial in earlier years, had dropped to an insignificant level recently. Imports, mostly from Austria, had increased to about 3 thousand tons in 1987.

30. The observer of the Economic Commission for Europe told the Committee that cow numbers on State and collective farms in the USSR on 1 November 1987 amounted to 28.8 million, representing a decline of about 0.7 per cent compared to the figure in November 1986. There was, however, a 4 per cent increase in milk production in 1986 and about 2 per cent increase in the first ten months of 1987 compared to the same period of 1986. The increase was made possible by an increase in milk yields. Production was expected to continue to increase in 1988, although the lower average quality of winter feeding could somewhat reduce the growth rate. As regards butter, Soviet production in 1986 increased by 6 per cent and in the first ten months of 1987 rose by 3 per cent. It was expected that the increase for

the entire 1987 would more or less be 3 per cent over last year. USSR butter imports in 1986 declined by about 30 per cent to a level of 174.3 thousand metric tons. Exports totalled 16.3 thousand metric tons, also showing a 6 per cent decline over their previous level.

Other business

31. The representative of New Zealand proposed that minimum prices of butter and anhydrous milk fat should be increased in view of the current reduced supplies and falling stock levels of fresh butter.

32. In the light of the market analysis, however, the Committee noted that international prices of butter remained low at or slightly above the minimum export price and the market remained fragile. It was, nevertheless, expected that the market might improve in 1988 if the current downward trends in production and stocks were confirmed. The Committee might, therefore, revert to the question of a modification of the minimum export prices for milk fat at its next regular meeting in March 1988.