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TARIFFS AND TRADE

International Dairy Arrangement

INTERNATIONAL DAIRY PRODUCTS COUNCIL

TWENTY-SECOND SESSION

Draft Report

Chairman: Mr. J.P. Buda

1. The International Dairy Products Council held its twenty-second session on 21 March 1990.

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. Note by the Chairman on the present meeting

- A. Election of Chairman and Vice-Chairman

3. In accordance with Rule 2 of the Rules of Procedure, the Council elected Mr. J.P. Buda (Uruguay) as Chairman for 1990/91 and Mr. K. Lillerud (Norway) as Vice-Chairman.

4. In connection with the elections of Chairman and Vice-Chairman, words of thanks and appreciation were expressed. The outgoing Chairman, Mr. K. Lillerud and Vice-Chairperson Mrs. J. Tyndall, were thanked for their wholehearted efforts over another successful year in the history of the Arrangement. The elected officers thanked the Council for the confidence they had been shown. Delegations were thanked for the efforts made to restore the credibility and effectiveness of the Arrangement, and the secretariat was thanked for services rendered.

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

5. The Council invited the representative of Panama in the capacity of observer, to follow the proceedings of the session, in conformity with Rule 11 of the Rules of Procedure.

6. 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.

C. Review of the functioning of the Arrangement

Reports of the fortieth and the forty-first sessions of the Committees of the Protocols

7. The Council carried out a review of the functioning of the Arrangement as required by its Article IV:1(b). For this review the Council had before it the reports of the fortieth sessions of the Committee of the Protocol Regarding Certain Cheeses, the Committee of the Protocol Regarding Certain Milk Powders and the Committee of the Protocol Regarding Milk Fat (DPC/PTL/8). A full report of these meetings had been approved recently and circulated as document DPC/PTL/9. Concerning the forty-first sessions of the Protocol Committees, the Chairman of the Committees presented an oral report to the Council.

8. The Committee of the Protocol Regarding Certain Cheeses, the Committee of the Protocol Regarding Certain Milk Powders and the Committee of the Protocol Regarding Milk Fat held their forty-first sessions on 19 and 20 March 1990.

9. In conformity with the Rules of Procedure, Mr. K. Lillerud (Norway) was elected Chairman for 1990/91.

10. After examining the replies to the questionnaires, the Committees considered the market situation for the products covered by the Protocols. Some information and comments regarding milk production and dairy policies were given in the Committees.

11. The Committees noted that world cheese production had continued its upward trend in 1989, totalling 14.25 million tons and the expansion continued into 1990. World skimmed milk powder production, at 3.8 million tons, fell for the third consecutive year in 1989, partly due to continued strong demand for light milk products; consequently less skimmed milk was available for drying. For 1990, however, output was projected to grow. World production of whole milk powder remained relatively stable in 1989. After having stabilized in 1988, world butter and butteroil production increased by 1.2 per cent in 1989, amounting to 7.60 million tons. Output in 1990 was forecast to increase by about the same rate, as a result of the anticipated increase of milk production and the continued shift to lower fat content of other dairy products.

12. The upward trend in cheese consumption continued in 1989. World per capita cheese consumption has been increasing at an average annual rate of 2 per cent since the early eighties, and might continue to increase at that rate in the near future. In 1989, world consumption of skimmed milk powder fell, reflecting lower supplies and rising prices to which feed compounders reacted in particular. Consumption of whole milk powder increased in 1989. World consumption of butter declined by 2 per cent in 1989, with sharper decreases registered in particular regions, notably in Western Europe and North America. The trend toward blended spreads and low fat spreads

accelerated in 1989. In the short and medium term, this trend was likely to continue.

13. Cheese trade expanded further in 1989, world exports reaching 870 thousand tons. There was a further decline of 25 per cent in world exports of skimmed milk powder in 1989, when they amounted to 900 thousand tons, with decreases registered by the European Communities and the United States. However, import demand in some developing countries such as Mexico and Brazil remained strong. Whole milk powder exports remained relatively stable in 1989. In terms of volume, whole milk powder was the most important dairy product in international trade. The European Communities and New Zealand remained the major suppliers to the world market. After having reached the record level of 1 million tons in 1988, world exports of butter declined in 1989 to some 800 thousand tons. By the end of 1989, import demand weakened. This, along with continued decline in milk fat consumption in many countries, had some impact on the international market.

14. Skimmed milk powder stocks in the European Communities, North America and Oceania were at the end of 1989 down to one fourth of their level at the end of 1987, and butter stocks were at the same time around one third their level of one year earlier. In any case, public intervention stocks remained low. However, early in 1990 certain quantities of butter had been bought into public intervention in the EC, and CCC purchases of butter continued in the United States, as a result of the fall in demand and prices.

15. Cheese prices in international trade levelled off in 1989 and weakened somewhat in early 1990. Quotations for Cheddar were in the range of US\$1,700 to US\$2,000 per ton f.o.b. in the first quarter of 1990. However, they were expected to stabilize in coming months, as import demand was sufficient to absorb the increased supplies. International prices for milk powders levelled off during the first three quarters of 1989 and weakened in the fourth quarter and in early 1990. In the first quarter of 1990, prices of skimmed milk powder ranged between US\$1,600 and US\$1,700 per ton f.o.b. and those of whole milk powder fluctuated between US\$1,550 and

US\$1,650 per ton f.o.b. Despite the recent weakening in prices, the market for milk powders was at present stable and well balanced with stocks still at historically low levels. Consequently, prices were expected to stabilize or even to recover.

16. International prices for milk fats tended to weaken in the fourth quarter of 1989 with prices of butter fluctuating between US\$1,650 and US\$2,000 per ton f.o.b. Due to a series of developments prices weakened sharply in January-February 1990, ranging between US\$1,450 and US\$1,550 per ton f.o.b., although offers might have been made at even lower prices. During the same period, prices of butteroil also decreased, fluctuating between US\$1,625 and US\$1,950 per ton f.o.b. However, as from the beginning of March 1990, some positive signs pointed to a stabilization and hopefully to a gradual improvement in prices of milk fats.

17. Participants exchanged information on transactions other than normal commercial transactions. Delegations had been reminded about relevant information to be submitted concerning food aid and transactions other than normal commercial transactions in conformity with the provisions of Article V of the Arrangement and Rules 24 and 30 of the Rules of Procedure.

18. The Committees noted that no sales of cheeses, milk powders and milk fats were made under derogations in the first quarter of 1990.

19. The next sessions of the Committees will be held on 18 and 19 June, subject to confirmation by the secretariat.

20. The Council took note of the reports on the implementation of the Protocol Regarding Certain Cheeses, the Protocol Regarding Certain Milk Powders and the Protocol Regarding Milk Fat. The Council expressed its sincere thanks to the outgoing Chairperson and the newly elected Chairman of the Committees for their excellent work and for the reports.

Replies to Questionnaires 4 and 5

21. The Chairman recalled that according to Rule 23 of the Rules of Procedure, annual data concerning milk and dairy products other than those covered by the Protocols, should be furnished two and a half months at the latest after the end of the period concerned. The secretariat had circulated on 15 February 1990, an invitation to submit replies, inter alia, to Questionnaire 4. At the time of the meeting replies had been received from the following participants: Argentina, Bulgaria, the European Communities, Finland, Hungary, New Zealand, Norway, Poland, South Africa, Sweden and Uruguay.

22. The Chairman also recalled that according to Article III of the Arrangement, and to Rules 23 and 29 of the Rules of Procedure, the full text of the inventory shall be distributed to participants at the beginning of each three-year period. As the Arrangement had entered its fourth three-year period of operation in January 1989, the inventory of measures affecting trade in dairy products was consequently being completely revised. At the time of the meeting, relevant information submitted in reply to Questionnaire 5 had been received from Australia, the European Communities, Finland, Japan, New Zealand, Norway, Poland, South Africa, Sweden, Switzerland and Canada.

23. The Council took note of the information received, which had been or would shortly be circulated in the DPC/STAT/- series and in the DPC/INV/4/- series and the Chairman urged participants who had not yet submitted their replies to Questionnaires 4 and 5, to take the necessary steps to ensure that the relevant information would be submitted to the secretariat as soon as possible. The secretariat was requested to send a reminder to delegations for which information was still missing.

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

24. 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/94), a note on food-aid operations relating to dairy products (DPC/W/96) and relevant statistical information (DPC/W/95, DPC/PTL/W/14, 15 and 16). 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. Comments made in the Protocol Committees would be reflected in the report of the meetings, ultimately to be circulated in the DPC/PTL/- series, and would not necessarily have to be repeated in the Council. He invited delegates to make general comments on dairy policy matters and the market situation, but anyone should feel free to take up any specific points related to the market situation and the documentation, if this was desirable.

25. The representative of Argentina referring to a concrete case drew the attention of the Council to present difficulties in the butter market. When an exporter a few days earlier had been negotiating the sale of 4,000 tons of butter to Algeria, the world market price was believed to be US\$1,650 per ton f.o.b. However, afterwards information became available indicating that a sale had been made to the USSR at a price of US\$1,550 per ton f.o.b., the sale under negotiation could not be concluded as envisaged and negotiations had to be resumed. The Community representative also had the information that there had been a recent sale of butter by Australia to the USSR and inquired at what price the sale had been concluded. The Australian representative said that he had no information yet on the matter. The Polish representative confirmed that during the period October 1989 to February 1990 there had been no Polish exports of butter to the USSR.

26. The Australian representative expressed disappointment with recent increases in Community export refunds notably for butter and with the relaxation of Community milk delivery quotas. These actions reduced the buffer between world market prices and the agreed minimum export prices. Lower Community export subsidies would be a major contribution towards a healthier world market situation and he called upon the Community to review its position and reduce its export refunds. With its market exceeding

50 per cent, the Community assumed a major responsibility of bringing export subsidies under control. The Australian representative also anticipated that developments in the United States might have a destabilizing effect on world dairy markets, notably those of butter and anhydrous milk fat, with an insulation of the domestic market perpetuating difficulties to world markets. He expected United States milk fat exports to double in the near future. This would create problems for efficient producers as Australia. He also saw a number of uncertainties regarding the USSR and other markets in Eastern Europe, where strong domestic price increases might have an adverse impact on butter demand and favour a shift in consumption from butter to margarine. He noted that Japanese dairy stocks had been reduced, but that import prices nevertheless had come under pressure lately. He made an appeal to the Community not to distort further the Japanese market.

27. The New Zealand representative expressed concern about recent developments in the butter market, but nevertheless felt that some encouraging signs had been seen lately. He saw the Community efforts made in order to dispose of more butter internally as a sign of determination to resist further increases in export refunds. New Zealand appreciated such steps to be taken as it was too frequently overlooked that it earned a very large percentage of its export earnings from dairy sales. He also shared the concern that a strengthening of the United States dollar might have a depressive effect on dairy prices. It would be necessary for all participants to take a constructive approach and try to reduce distortions imposed in various ways.

28. The representative of the European Communities also shared the concerns expressed as to adverse effects on the world market for dairy products caused by monetary evolution including an increase in the exchange rate for the United States dollar. He recalled that the Community had taken a cautious line when modifying minimum prices and later developments had shown that this was wise. Minimum prices were safety nets, neither target prices nor support prices. It was in his view justified to be concerned about the butter market, notably in light of the sharp fall in

butter consumption in many countries. In this situation it was regrettable that one participant, without reason and without being forced to do so, sold a substantial quantity of butter at a price of US\$200 per ton below prevailing world market prices. He also regretted that the United States went ahead and sold a large quantity of butter at US\$1,618 per ton in autumn 1989, when Community exporters asked for US\$1,800. This was irresponsible behaviour and it would now be left to other participants to repair the damage and get prices back to a more reasonable level. At the time, the Community had recognized its responsibility and taken measures to restore the balance in the market, while other countries did nothing or even took advantage of the results of the Community efforts. Since the introduction of quotas in 1983, the Community dairy herd had been reduced by 19 per cent; milk deliveries by 11 per cent; butter production by 25 per cent and milk powders by 45 per cent. Furthermore, both indicative prices and intervention prices had been lowered and financial encouragements had been provided to producers accepting to give up milk production. Sales to intervention bodies of butter and skimmed milk powder had been made more difficult in order to prevent the accumulation of surplus stocks. Those efforts should be appreciated and he thanked participants that did so. There were strong pressures for relaxation of quotas and an increase in those of 1 million tons mainly for structural improvement purposes should be seen in light of that. He finally stressed that the Community would always respect its commitments within the framework of the GATT, and notably the provisions of the Arrangement.

29. The New Zealand representative recalled that the USSR was the most important butter market in the world and that New Zealand had made regular substantial commercial sales of butter to that market for more than ten years. The dependence on this market increased as access to the Community market for butter decreased and there were no alternative markets that could absorb the quantities involved. The sale of 70 thousand tons (64 thousand tons from New Zealand and 6 thousand tons from Australia) late January 1990, was the first by New Zealand since 1988. In 1989, New Zealand had been unable to conclude any sale to the USSR, inter alia, because of sales to that market by the United States. It had held out as long as it could, but with heavy stocks, New Zealand could not afford to go

on to the next season without making the sale. It should be kept in mind that New Zealand exported butter to make a living and to maximize its profits. The price achieved was the best that could be achieved and he contested the allegation that New Zealand had undercut the prevailing market price by US\$200 per ton. Community export prices had fallen steadily since November 1989, as had internal prices and there had been prospects of a reduction in Community intervention prices from 1 March 1990 with no corresponding reduction in export refunds. On the contrary, Community export refunds for butter had been increased lately without reason, forcing world market prices down. It remained the logic of export refunds that they tended to increase the volume offered for export and forced market prices down. A price of US\$1,450 per ton f.o.b. should also be seen in relation to significantly higher freight costs to New Zealand when exporting to the USSR, as it was the price at which the product was delivered that had to be competitive. Although he acknowledged the measures taken by the Community to stabilize the international dairy market, he nevertheless felt that they were far from sufficient. Much would depend on what the Community would do and he welcomed the reassurance by the Community that it would respect its commitments under the GATT and the Arrangement. He would put more emphasis on trade liberalization than on stabilization of markets, and felt that under a system with free play of market forces, normal price would not be a concept. He also reiterated that New Zealand was producing dairy products without subsidies and protection, competing with dishonest practices in other countries. Anyhow, New Zealand could not be held responsible for the effects of Community subsidies and excessive support prices.

30. The Community representative could not, in spite of the explanations provided, see that there had been sufficient reasons to sell the butter at a price of US\$1,450 per ton, and in this particular case Community export refunds could not be a cause as no Community butter had been offered for export during the period in question. He also considered it to be erroneous to believe that Community export refunds were determining world market prices for dairy products. He furthermore stressed that for the Community it was out of the question to negotiate a total liberalization of dairy trade; and that the Community would maintain its present pricing system.

31. The New Zealand representative raised the question of the increasing amount of trade in the form of food aid and humanitarian assistance currently being granted to countries in Eastern Europe and the USSR. In his view, it was important to ensure that this did not undermine commercial trade. It was vital that standard international disciplines were respected such as the procedures of the FAO Consultative Sub-Committee on Surplus Disposal and the relevant provisions of the International Dairy Arrangement. Participants should take care to ensure that such sales would not, directly or indirectly, have a depressing effect on export prices bringing them below the agreed minima. Of particular concern to New Zealand was a grant made recently of one member State of the European Communities coming on the top of regular export refunds and tied to the purchase of a substantive value of Community products. This could not be accepted as way of current international disciplines, although he could acknowledge the special political circumstances under which this grant was made. He nevertheless insisted that this type of action should not set a pattern for future trade in agricultural products. The representative of Australia endorsed the view expressed by New Zealand on this point.

32. With respect to the market situation for casein, the New Zealand representative reported that New Zealand production for 1989/90 was expected to amount to 60 thousand tons, close to the average of the last five years, but was up by 6 thousand tons on that of the previous season. The United States and Japan had remained the main markets, and the supply situation was at present well balanced. The market situation for casein had been affected mainly by changes in milk powder markets, and developments within the European Communities being the main source influencing these changes. After having reached a record level in 1989, casein prices eased back late in that year and in early 1990. Recent export sales by Poland to earn foreign change had also had some impact on casein prices. For the second half of 1989, New Zealand had experienced prices of US\$2.20 to US\$2.40 per pound delivered in the United States. More recently prices had eased further towards US\$2.00 per pound.

33. The Community representative found there to be some contradiction in the New Zealand point of view. Prices for skimmed milk powder had fallen in the Community, thus getting closer to international prices. But, this had not had an depressive effect on casein prices. Community casein production had been reduced by almost 18 per cent from 1988 to 1989 and by a further 3 per cent in 1989/90, and was at present at a level of 145 thousand tons a year. Further details could be found in the Community reply to Questionnaire 4.

34. The Australian representative reported that Australian casein production had in the second half of 1989 reached 4.9 thousand tons compared to 6 thousand tons in the equivalent period in 1988. This 17 per cent decrease in production was attributable to weak internal demand for casein and relatively low returns on export markets. For 1989/90, exports of casein were forecast to decline to 5.5 thousand tons compared to 6 thousand tons in 1988/89. Domestic consumption of casein was expected to remain static in 1989/90 at around 0.5 thousand tons. The world market for casein had been buoyant during the last six months of 1989, largely due to the high skimmed milk powder prices on world markets and a consequent decrease in world production. International prices for casein had declined to around US\$4,500-US\$5,000 per ton f.o.b. Overall, casein production was expected to stabilize in 1990, although a Community policy decision to no longer allow the use of casein, produced under subsidy after March 1990, in the production of manufactured cheese resulted in a production surge in February.

35. The Council took note of the Status Report (DPC/W/94), the note on food-aid operations (DPC/W/96) and of relevant statistical information compiled by the secretariat. The Council also noted the comments made under this item of the agenda.

E. Note by the Chairman on the present meeting

36. The Chairman recalled that according to a 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 twenty-second session on 21 March 1990.

2. Mr. J.P. Buda (Uruguay) was elected Chairman for 1990/91 and Mr. K. Lillerud (Norway) was elected Vice-Chairman of the Council. Mr. Lillerud was also elected Chairman of the Protocol Committees.

3. 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.

4. The Council reviewed the functioning of the Arrangement. It took note of reports on the implementation of the Protocol Regarding Certain Cheeses, the Protocol Regarding Certain Milk Powders and the Protocol Regarding Milk Fat.

5. 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 of comments made on this documentation. Participants that had not submitted all the information requested were urged to do so as soon as possible.

6. For its traditional evaluation of the situation in, and outlook for the world market for dairy products, the Council, in addition to the reports from the Committees of the Protocols, also had before it documents prepared by the secretariat, notably a status report on the world market for dairy products, a note on food-aid operations and relevant statistical information. The Council took note of the documents and comments made.

7. World milk production increased by 0.7 per cent from 1988 to 1989 and was expected to grow at least at that rate in 1990. A continuous increase in production in North America, the USSR and India outweighed a further reduction in milk deliveries in most European countries. In New Zealand, the 1989 milk output was adversely affected by unfavourable weather conditions.

8. The market for milk and dairy products remained a fairly balanced one throughout 1989, with increased supplies of milk being well absorbed. At the end of 1989, intervention stocks of butter and skimmed milk powder were almost non-existent. However, early in 1990, intervention purchases of butter were made in the European Communities and also in the United States.

9. World production of butter exceeded its previous level by 1.2 per cent and amounted to 7.6 million tons in 1989. Early in 1990 there was a tendency for exportable availabilities of butter to increase, partly due to larger sales of light dairy products and partly due to declining butter consumption in a number of markets.

10. Production of skimmed milk powder declined for a third consecutive year in 1989, and exportable supplies remained limited.

11. Cheese production grew by another 0.2 per cent in 1989, and the trend appeared to have continued in 1990 while that for whole milk powder had stagnated. International trade in these products continued its upward trend.

12. Food aid in terms of dairy products was adversely affected by the reduction in available supplies and continued to decline in 1989, and was expected to remain low in 1990, probably being at a level of less than 100 thousand tons (product weight), roughly corresponding to one quarter of their level in the early eighties.

13. Prices in international markets which had risen strongly throughout 1988, stabilized overall in 1989. For cheese and powders, prices had reached historical records, while those for butter and anhydrous milk fat were still inferior to their levels early in the decade, confirming a difference in underlying price trends for fat and non-fat components of the milk.

14. Some weakening in world market prices for dairy products was observed from late 1989, and early in 1990 some quantities had reportedly been offered at substantially reduced prices, although prices remained well above the agreed minimum export prices. However, the fall in prices was not expected to continue and there was even some hope for a certain recovery in prices, notably in light of stocks being low. Appreciation was expressed with efforts made by participants to improve the dairy markets. Some concern was expressed that exchange fluctuations might again cause uncertainties to world dairy trade.

15. The International Dairy Products Council intends to hold its next regular session on 19 September 1990."

37. The Council agreed to the suggestion by the Chairman and the note was circulated in document L/6659, dated 23 March 1990.

38. The twenty-second session of the International Dairy Products Council was then closed.