

# GENERAL AGREEMENT ON

RESTRICTED

Spec(90)33  
1 October 1990

## TARIFFS AND TRADE

---

### International Dairy Arrangement

#### INTERNATIONAL DAIRY PRODUCTS COUNCIL

#### TWENTY-THIRD SESSION

#### Draft Report

Chairman: Mr. José Pedro Buda

1. The International Dairy Products Council held its twenty-third session on 18 September 1990.
2. The Council adopted the following agenda:
  - A. Admission of observers under Rules 11 and 14 of the Rules of Procedure
  - B. Review of the functioning of the Arrangement
  - C. Evaluation of the situation in, and outlook for, the world market for dairy products
  - D. Report to the CONTRACTING PARTIES
  - E. Tentative schedule of further meetings
  - F. Note by the Chairman on the present meeting.
- A. Admission of observers under Rules 11 and 14 of the Rules of Procedure
3. The Council invited Panama in the capacity of observer, to follow the proceedings of the session, in conformity with Rule 11 of the Rules of Procedure.

4. The Chairman recalled that 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. These organizations had accordingly been invited to participate in the present session as observers. In conformity with Rule 14 of the Rules of Procedure, an observer for the IMF had been invited to attend the session.

B. Review of the functioning of the Arrangement

Reports of the forty-second and forty-third sessions of the Committees of the Protocols

5. In accordance with Article IV:1(b), the Council reviewed the functioning of the Arrangement. For this review, the Council had before it the report of the forty-second sessions of the Committee of the Protocol Regarding Milk Fat, the Committee of the Protocol Regarding Certain Cheeses and the Committee of the Protocol Regarding Certain Milk Powders (DPC/PTL/11), and the report of a special meeting held in July 1990 (DPC/PTL/12). The full reports of the forty-second sessions of the Protocol Committees had been approved at their forty-third sessions and would be distributed shortly (DPC/PTL/13).

6. The Committees of the Protocols had held their forty-third sessions consecutively on 17 and 18 September 1990, and the Chairman of the Committees was called upon to present an oral report of these meetings.

7. After examining the replies to the questionnaires, the Committees considered the market situation for the products covered by the Protocols. Information and comments regarding milk production and dairy policies were given in the Committees and will be recorded in the full report of the meetings.

8. The Committees noted that world skimmed milk powder production in 1989 had declined to 3.8 million tons but had recovered in 1990. World production of whole milk powder remained relatively stable in 1989. World

butter and butter oil production continued to grow at a rate of 1.4 per cent in 1989, amounting to 7.60 million tons; the trend persisted in 1990, as a result of the increase in milk production and the shift in consumption towards light dairy products. Further developments in production and sales of light products tended to result in increased supplies of butter becoming available for export, a tendency notably apparent in Western Europe and the United States. World cheese production continued its upward trend in 1989, totalling 14.39 million tons and the expansion continued in 1990.

9. 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 remained relatively stable 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. Higher retail prices in Eastern Europe resulted in a strong decline in domestic butter demand. The upward trend in cheese consumption continued in 1989 and 1990 although the growth rate appeared to have fallen slightly.

10. There was a further decline of 20 per cent in world exports of skimmed milk powder in 1989, when they amounted to 950 thousand tons, although import demand in some developing countries such as Mexico and Brazil remained strong. Whole milk powder exports decreased by some 100 thousand tons to 880 thousand tons in 1989. After having reached the record level of 1 million tons in 1988, world exports of butter declined in 1989 to some 800 thousand tons. From late 1989 on, import demand weakened, reflecting a continued decline in milk fat consumption in many countries. Additional quantities of butter were expected to be offered on international markets in 1990/91, resulting in pressure on market prices and in increased needs for intervention purchases. Cheese trade expanded further, world exports reaching 870 thousand tons in 1989. The general expansionary tendencies continued in 1990, and sales in some markets increased strongly.

11. Skimmed milk powder stocks in the European Communities, North America and Oceania on 1 July 1990, at 270 thousand tons, doubled in relation to 1 July 1989, mainly due to the increase in Community stocks. On the same

date, butter stocks at 500 thousand tons had hardly changed from a year earlier. Concerns were expressed that stocks of both products would be increasing as a result of the fall in demand. Community intervention stocks of skimmed milk powder and butter were presently at 350 thousand tons and 172 thousand tons respectively. Intervention buying of skimmed milk powder had been suspended at the beginning of September. Public stocks of butter in the United States were forecast at 135 thousand tons on 1 October 1990.

12. The Committee of the Protocol Regarding Certain Milk Powders took note of the information furnished by New Zealand regarding a sale of skimmed milk powder to Japan for purposes of animal feed under Article 3:5 of the Protocol (DPC/PTL/W/21).

13. International prices continued to weaken in the third quarter of 1990 and some offers and sales of butter and skimmed milk powder were reportedly made at prices below the agreed minimum export prices. Concerns were reiterated as to the extremely difficult market situation notably for milk fats. The Committees reiterated that the non-observance of the minimum prices would have negative effects for the dairy markets and that there was an urgent need to stabilize the situation and also reiterated the appeal to all participants to observe strictly the provisions of the Arrangement. They took note of information furnished by certain participants as to the steps being taken in order to fully observe the minimum export prices. The Committees reiterated also their appeal to countries not participating in the Arrangement, inviting their co-operation in efforts to stabilize the world market for dairy products.

14. For the third quarter of 1990, the following ranges of prices were reported (per ton f.o.b.):

- between US\$1,300 and US\$1,450 for skimmed milk powder;
- between US\$1,250 and US\$1,400 for whole milk powder;
- between US\$1,350 and US\$1,450 for butter;

- between US\$1,625 and US\$1,850 for anhydrous milk fat;

- between US\$1,500 and US\$1,950 for Cheddar cheese.

15. The Committees reviewed the level of the minimum export prices of products covered by the respective Protocols as required in the Arrangement. In view of the uncertainties affecting the current market situation, notably for butter, the minimum export prices were maintained at their present levels and participants were urged to respect them. The Committees took note of the statements made and concerns expressed by Argentina, Australia, the Communities, Hungary, New Zealand, the Nordic countries, South Africa, Switzerland and Uruguay on this matter.

16. The next regular sessions of the Committees were envisaged to be held on 10 and 11 December 1990.

17. The Council took note of the report on the implementation of the Protocol Regarding Milk Fat, the Protocol Regarding Certain Cheeses, and the Protocol Regarding Certain Milk Powders and expressed its appreciation and sincere thanks to the Chairman of the Committees for his excellent work and for the comprehensive report.

#### Replies to Questionnaire 4

18. The Chairman recalled that concerning data on milk and dairy products other than those covered by the Protocols, the secretariat had issued a reminder on 15 August 1990, in the form of an airgram requesting replies by 15 September 1990. So far in 1990, information had been received from Argentina, Australia, Bulgaria, the European Communities, Finland, Hungary, Japan, New Zealand, Norway, Poland, South Africa, Sweden and Uruguay. Similar information had also been received from Canada (DPC/W/97/Rev.1).

19. The Council took note of the information received, which had been or would shortly be circulated in the DPC/STAT/- series.

Replies to Questionnaire 5

20. The Chairman recalled that according to Article III of the Arrangement and to Rules 23 and 29 of the Rules of Procedure, the full text of an inventory of all measures, affecting trade in dairy products, including commitments resulting from bilateral, plurilateral or multilateral negotiations has been due for a complete update, revision and circulation to participants since 1989. He also reminded participants that they were supposed to communicate any changes in domestic policies and trade measures on a continuous basis, and in any case by July each year. So far in 1990, information on policies and trade measures had been received from Australia, the European Communities, Finland, Japan, New Zealand, Norway, Poland, South Africa, Sweden, Switzerland and Uruguay. Similar information had also been received from Canada (DPC/INV/4/Rev.4). The Chairman urged participants to submit all new and relevant information to the secretariat as soon as possible.

21. The Council took note of the information received which had been, or would shortly be, circulated in the DPC/INV/- series.

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

22. In order to facilitate the consideration by the Council, the secretariat had as usual prepared and circulated some background documentation, notably a status report DPC/W/98 and Add.1, a note on food aid DPC/W/100 and relevant statistical information contained in summary tables DPC/PTL/W/22, 23 and 24 and replies to questionnaires. The Chairman recalled that parts of the status report and the statistical information had been subject to consideration in the Protocol Committees. Information on milk production and dairy policies given in the meetings of the Committees would be recorded in their full reports (see DPC/PTL/- series). He therefore invited comments of a general nature on dairy policies and the market situation, but stressed that anyone should feel free to take up specific points related to the market situation and the documentation, if this was desirable.

23. In Sweden, new guidelines reforming agricultural and food policy were adopted by the Parliament in June 1990. The new policy will be applied from 1 July 1991 and will be fully implemented after a five-year transitional period. In principle agriculture shall be subject to the same conditions as other sectors. Producers should only be paid for goods and services for which there is a demand. When farmers' services are required in the national interest, they should be paid for out of the budget. The primary goal of the food policy is that it shall be consistent with the general objective of sound management of the country's total resources. The main consequences of the policy are that border protection will remain unchanged pending the outcome of the ongoing GATT negotiations and that internal market regulations including collective financing of exports will be phased out starting on 1 July 1991. As part of the 1989 tax reform, it was also decided to abolish remaining consumer subsidies for milk and dairy products as of 1 January 1991, which in 1988/89, amounted to SEK 1,788 million. As from 1 July 1991, collective export financing for dairy products will be abolished along with various other internal market controls in the dairy sector. The present equalization system designed to eliminate differences in the profitability of different products, will remain in a simplified form until 30 June 1994; then it will be reduced and later abolished from 1 July 1995. Prices will to a great extent be related to production costs as a result of the abolition of the equalization scheme. Future policy regarding export support will depend on the outcome of the Uruguay Round negotiations. The new dairy policies were expected to entail a reduction of the herd by 60,000-100,000 dairy cows and that 3,000 to 5,000 producers of a total of 26,000 at present, will give up dairy farming. The present retirement scheme will be continued during the transitional period probably with increased grants for aged producers who quit dairying. Certain details of the new policy including transitional measures were still subject to consideration. Apart from the milk pension scheme a total of SEK 360 million would be available to encourage the reduction of milk production, increase slaughterings of dairy cows, stimulate self-recruiting beef production and to prevent price depressing surpluses. Incentives will be provided to encourage a shift to other productions such as energy crops, environment-enhancing projects, landscape conservation and forestry. Other representatives thanked Sweden for the

information provided and expressed the hope that the deregulation of Swedish dairy policies would prove to be a successful one.

24. The Community representative offered some personal reflections on the tentative situation in the dairy market. He envisaged the structural surplus to persist notably with respect to milk fat, but would not exclude that problems might occasionally occur also for the protein components. In his view, prices for milk fat were too high both on external and internal markets and competing products were taking an increasing share of the market. Although the potential demand could be sufficient to absorb the present volume of supplies, in many areas the purchasing power was lacking. Consequently, effective demand fell short of offers and a surplus situation would persist and at times make it difficult to exporters to fully respect the agreed minimum export prices. He saw only two options for restoring the balance in the market: a reduction of the price or a reduction of the quantity. He admitted though that both options were difficult to implement, but nevertheless felt that some thought ought to be given to what attempts might be made. The Arrangement ought to be considered a real international one, not merely a question of respecting minimum export prices, but focusing on what would or could be done to find lasting solutions to the problems in the dairy market. He did not expect the present surplus situation to change significantly over the next decade.

25. The New Zealand representative found such reflection on the future of the dairy market to be useful and interesting, although he might see things slightly differently. He felt it to be most important to establish greater discipline on export subsidization and access to markets; the rest would follow of its own accord. With a continuation of subsidized exports there would be no point at which market prices would stop descending. The current application of minimum export prices had proved to be useful to stop prices from sliding downwards, but he saw it as merely a holding mechanism and partial rather than a conclusive solution. He hoped that something more satisfactory could be achieved with respect to disciplines on subsidies and that the market would subsequently be allowed to sort itself out. Limitation in production might very well be required but this

would follow from disciplines established on subsidization and exports. He was hopeful that present barriers would come down, that in another ten years the market situation might be remarkably different and he was not unnecessary pessimistic about the future. He was confident that one day we would have a more rational dairy market, with a more logical structure allowing production to respond to market developments.

26. The representative of Argentina recalled that some countries were able to produce milk at very competitive prices, but could not compete with subsidized production in other countries. Depending on the outcome of the Uruguay Round negotiations, the discussion of the future of the dairy market might be different at later meetings. However, the discussion of matters related to the observation of minimum export prices would remain difficult as long as economic distortions caused by subsidization were not eliminated.

27. The Community representative in a further statement recalled that the Council was supposed to draw certain conclusions regarding the world market situation for dairy products. Consequently, he presented the following suggestions. During a limited period the market had been in good shape with prices at their highest level since the war. At present a more difficult period had been entered into, but this time the difficulties could not be attributed to the application of subsidies and refunds by the Community. Some phenomena, both old and new ones, were apparent. All over the world there was a falling consumption for a variety of reasons. In industrialized countries of Europe and North America health considerations had resulted in reduced consumption of milk fat. Consumption had fallen in developing countries as well, although for other reasons, notably an insufficient purchasing power that allowed consumers to pay the higher prices. This had been further aggravated by the Gulf crisis recently, with the loss of two important markets namely Iraq and Kuwait. Other markets were adversely affected by the adjacent increase in petrol import bills, which had doubled over a few weeks only. Economic changes in other countries, notably the USSR, finding itself in a dramatic economic situation which might even entail change of government. Changes in various

Eastern European countries had significantly affected the dairy market. In Eastern Germany consumption had been halved in 1990, simply because food subsidies had been abolished. Dairy products had consequently become expensive triggering a strong reaction among consumers. All this inevitably led to a surplus situation. Consequently, production would have to be reduced and consumption stimulated. In his view, the Community had demonstrated outstanding behaviour. Since 1984 production had been drastically reduced, dairy quotas had been imposed with considerable effect on the production level thus avoiding a potential production that would certainly have been catastrophic. Furthermore, substantial efforts had been made to stimulate internal consumption, for instance by seeking new outlets inside the Community. All this had been made at great expenses, but had given good results. In light of all this, it was disappointing to observe the lack of efforts by other countries such as the USSR, India and other developing countries which had continued to expand milk production for economic development reasons. This obviously contributed to increasing dairy surpluses and reducing import demand. The Community was however ready to go further, taking important steps notably in relation with German unification. Eastern German milk production would be reduced from 8 to 6 million tons over the next year and made subject to the current Community restrictions relating to production volume. The adjustment would inevitably hit Eastern German farmers. He could not, in light of all this, accept that Community subsidies, or the common agricultural policy, caused problems to anyone. Depressed prices, as presently observed in South American markets were caused by other factors, notably as the Community had not offered products recently in those markets. He invited other exporting countries to look at their own commercial practices, before accusing the Community. It would not in this situation be appropriate to ask anyone to stop applying a price differentiation between internal and external markets. It would be most appropriate, for instance in the Uruguay Round, to go to the root of the problem and reduce the support in general, reduce support prices and restrict production volume. He reiterated that the Community could not undertake such efforts in isolation; other countries would have to participate actively in the efforts to restore and maintain the order in the dairy market, notably by containing production.

28. In reply to comments by Argentina and New Zealand that market forces now ought to get a chance and contribute to a necessary downward adjustment in dairy supplies, and allowing low cost producers access to markets where consumption at present was kept down by artificially high prices, the Community representative said he also believed in the importance of free market forces. The problem was however, in his view, that in the dairy sector the market forces needed to be supplemented. A reduced price to producers might not in itself result in lower production. Over recent years, milk prices to Community producers had been reduced by 15 to 24 per cent, but this had not had a corresponding effect on production volume. It had been necessary to apply quantitative limitations, based on political regulations.

29. The observer for Canada recalled that Canada had contributed actively to maintain a stability in the world dairy market as supply management had been introduced already in 1970 to 1974. The Market Sharing Quota had been reduced as of 1 August 1990 to its lowest level ever, 20 per cent below the original level for 1970-1974. He therefore did not feel the general criticism of the Community to be appropriate in the case of Canada. Butter consumption was falling also in Canada and consumers were currently paying a premium for low-fat milk. Support price setting had been partly de-regulated in Canada and the sector might itself determine the ratio between fat and non-fat milk components when determining prices.

30. The Council took note of the status report on the world market for dairy products (DPC/W/98 and Add.1), a note on food-aid operations (DPC/W/100) and the relevant statistical information provided. The Council also noted the comments made under this item of the agenda. It agreed that the status report and its addendum, as amended and completed in light of more recent information and taking into account the comments made, should be released for general distribution as the eleventh annual report under the International Dairy Arrangement.

D. Report to the CONTRACTING PARTIES

31. The Chairman recalled that according to a decision of the CONTRACTING PARTIES of 28 November 1979 (BISD 26S/201), the Council was requested to report on its activities. The Council agreed that the Chairman should submit on his own responsibility a concise, but purely factual report to the CONTRACTING PARTIES on the activities of the International Dairy Products Council and of the Protocol Committees since the 1989 session of the CONTRACTING PARTIES.

E. Tentative schedule of further meetings

32. The Chairman recalled that according to the Rules of Procedure, the International Dairy Products Council shall normally meet in March and September of each year (Rule 3), and the Committees in March, June, September and December of each year (Rule 16). For some time, it had been the tradition of the Council to establish at its September session a tentative schedule of future meetings.

33. The Council consequently adopted the following schedule of meetings:

1990

10-11 December      Committee of the Protocol Regarding Certain Cheeses  
                         Committee of the Protocol Regarding Certain Milk Powders  
                         Committee of the Protocol Regarding Milk Fat

1991

18-19 March              Committee of the Protocol Regarding Milk Fat  
                         Committee of the Protocol Regarding Certain Cheeses  
                         Committee of the Protocol Regarding Certain Milk Powders

20 March                International Dairy Products Council

17-18 June              Committee of the Protocol Regarding Certain Milk Powders  
                         Committee of the Protocol Regarding Milk Fat  
                         Committee of the Protocol Regarding Certain Cheeses

16-17 September      Committee of the Protocol Regarding Certain Cheeses  
                         Committee of the Protocol Regarding Certain Milk Powders  
                         Committee of the Protocol Regarding Milk Fat

18 September            International Dairy Products Council

9-10 December         Committee of the Protocol Regarding Milk Fat  
                         Committee of the Protocol Regarding Certain Cheeses  
                         Committee of the Protocol Regarding Certain Milk Powders

Any special session will be in addition to this schedule. It should be noted that such a tentative schedule of meetings is established for preliminary reference only and all dates will remain subject to confirmation by the secretariat.

F. Note by the Chairman on the present meeting

34. The Chairman recalled that according to a decision of 28 November 1979 (BISD 26S/201), the CONTRACTING PARTIES should receive adequate information on developments relating to the operation of the Arrangement. He accordingly suggested that he as usual circulate a note by the Chairman as follows:

"1. The International Dairy Products Council held its twenty-third session on 18 September 1990.

2. Under Rules 11 and 12 of the Rules of Procedure, the Council invited representatives of Panama and the Economic Commission for Europe, FAO, IMF, OECD and UNCTAD to attend the session as observers.

3. The Council reviewed the functioning of the Arrangement. It took note of reports on the implementation of the Protocol Regarding Certain Milk Powders, the Protocol Regarding Milk Fat and the Protocol Regarding Certain Cheeses. The Council took note of the information submitted recently in reply to Questionnaires 4 and 5, concerning production, consumption, trade and prices for products not covered by the Protocols and concerning dairy policies and measures affecting trade. The Council concluded that the International Dairy Arrangement was functioning to the satisfaction of its participants, that it was working very well and had proved to be a valuable instrument in restoring and maintaining the order in the international dairy market.

4. Basing itself on the reports from the Committees of the Protocols, documentation prepared by the secretariat and on information provided by participants during the meeting, the Council undertook an evaluation of the situation in, and outlook for, the world market for dairy products.

5. The world market for milk and dairy products remained a fairly balanced one throughout 1989 and intervention stocks of butter and skimmed milk powder were almost non-existent at the end of the year. However, in 1990 the balanced market situation for dairy products seemed to have come to an end, with strong downwards pressure on prices notably for butter and skimmed milk powder. Prices for dairy products came under pressure in international markets and some offers and sales of butter and skimmed milk powders were reportedly made at prices below the agreed minimum export prices. Depressed market prices for butter were feared also to affect adversely sales and prices of other dairy products, notably powders, as sales of dairy products are often linked or handled by the same operators.

5. A vigorous demand for light products in many countries entailed a substantial surplus of milk fat for which butter production represented the only commercial utilization. Furthermore, a continued and even accelerated fall in butter consumption in North America and Europe resulted in increased exportable availabilities. In particular higher retail prices in Eastern Europe entailed a strong decline in domestic butter demand. Additional quantities of butter could be offered on international markets in 1990/91, resulting in pressure on market prices and in increased needs for intervention purchases.

7. The Protocol Committees established under the Arrangement expressed their concerns as to the unsatisfactory situation dominated by a fragile butter market, and urged participants to ensure full observance of the minimum export prices. An appeal was also made to non-participants not to offer or sell dairy products at prices below prevailing market prices and in particular not below the agreed

minimum export prices. The Committees agreed that the minimum export prices would be maintained at their present levels.

8. The Council took note of the documents and comments made, and agreed that the status report as completed, updated and amended should be released for general distribution as the eleventh annual report of the International Dairy Arrangement.

9. The Council authorized the Chairman to submit to the CONTRACTING PARTIES a report on the work done since December 1989 in pursuance of the objectives of the International Dairy Arrangement. It was understood that the Chairman would do so on his own responsibility.

10. The Council adopted a tentative time schedule for regular meetings up to the end of 1991. In doing so, it was understood that any special session would be in addition to that schedule and that all dates would remain subject to confirmation by the secretariat."

35. The Council agreed to the suggestions by the Chairman and the note was circulated in document L/6725 dated 20 September 1990.

36. The twenty-third session of the International Dairy Products Council was then closed.