

**GENERAL AGREEMENT ON
TARIFFS AND TRADE**

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International Dairy Arrangement

INTERNATIONAL DAIRY PRODUCTS COUNCIL

TWENTY-FIFTH SESSION

Draft Report

Chairman: Mr. K. Luotonen

1. The International Dairy Products Council held its twenty-fifth session on 18 September 1991.

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
- G. Date of the next regular session

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

3. The Council welcomed representatives of Mexico as observers, in accordance with Rule 10 of the Rules of Procedure, which permitted

contracting parties which were not signatories to the Arrangement to follow the proceedings of the Council in an observer capacity.

4. The Council invited the representative of Panama to follow the proceedings of the session in the capacity of observer, 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. Accordingly he had invited these organizations to participate in the present session as observers.

B. Review of the functioning of the Arrangement

Reports of the forty-sixth and the forty-seventh sessions of the Committees of the Protocols

6. 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 report of the forty-sixth 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/19). A full report of these meetings had been approved recently and circulated as document DPC/PTL/20. Concerning the forty-seventh sessions of the Protocol Committees, the Chairman of the Committees presented an oral report to the Council.

7. 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-seventh sessions on 16 and 17 September 1991.

8. After examining the replies to questionnaires, the Committees had 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 recorded in the full report of the meetings.

9. The Committees noted that world cheese production had grown by another 2.7 per cent in 1990 to 14.87 million tons, and the expansion continued in 1991. World butter production grew in 1990 at a rate of 1.4 per cent amounting to 7.70 million tons, but was apparently decreasing by some 2 per cent in 1991. After having declined for three consecutive years, world skimmed milk powder production increased in 1990 to 4 million tons. However, world production in 1991 was forecast to decline by 3 per cent. World production of whole milk powder continued to decrease in 1990 at about the same rate as in the previous year, i.e. by 1.5 per cent.

10. The upward trend in cheese consumption continued in 1990 and 1991, although the growth rate appeared to have fallen slightly. World consumption of butter declined by 2 per cent in 1990, with sharper decreases registered in particular regions. In 1990 and 1991, increased retail prices in Central and Eastern European countries affected adversely the consumption of butter. In the medium term, world butter consumption might decrease further as the trend towards a diet with less fat would persist and remain irreversible. World consumption of skimmed milk powder remained stable in 1990 and this stability was maintained in 1991. Consumption of whole milk powder decreased in 1990 and this downward trend continued in 1991.

11. Cheese trade expanded further in 1990, world exports reaching 887 thousand tons. The general expansionary tendencies continued in 1991. As a result of a further deterioration of the market for butter, world exports in 1990 decreased to some 700 thousand tons. A persisting vigorous demand for light products, resulting in substantial surpluses of milk fat and a continued low butter consumption in many countries, entailed increased exportable availabilities. Additional quantities of butter were offered on international markets in 1990/91, resulting in pressure on market prices and in increased need for intervention purchases. There was a further decline of 5 per cent in world exports of skimmed milk powder in 1990, when

they amounted to 900 thousand tons. World exports of whole milk powder declined by 7 per cent in 1990 to 820 thousand tons.

12. Aggregate butter stocks in the European Communities, North America and Oceania on 1 July 1991, estimated at 770,000 tons, were 50 per cent higher than a year earlier. On the same date, skimmed milk powder stocks, at 720,000 tons, had increased by as much as 148 per cent in relation to their level on 1 July 1990, mainly due to the increase in Community and United States stocks. Concerns were expressed that stocks of both products would remain high. World stocks at the end of 1991 were forecast at around 1 million tons for each product.

13. In the third quarter of 1991, the market situation for dairy products, notably milk powders, improved somewhat in part due to the weakening of the United States dollar and to further restraints in milk deliveries notably in the Community.

14. For the third quarter of 1991, the following ranges of prices were reported (per ton f.o.b.):

- between US\$1,450 and US\$1,550 for skimmed milk powder for human consumption;
- between US\$1,440 and US\$1,575 for whole milk powder;
- between US\$1,450 and US\$1,540 for butter;
- between US\$1,675 and US\$1,850 for anhydrous milk fat;
- between US\$1,550 and US\$2,100 for Cheddar cheese.

15. The Committee of the Protocol Regarding Certain Cheeses took note of the information furnished by Australia and New Zealand regarding operations under Article 7:2 of the Protocol. Certain participants expressed continued concern with regard to the use of this derogation by New Zealand and also the notification obligations of said country.

16. The Committee of the Protocol Regarding Certain Milk Powders took note of the information furnished by Poland and South Africa regarding intended sales of skimmed milk powder for purposes of animal feed at below the

minimum export price under Article 3:5 of the Protocol. The Committee also took note of the summary table regarding sales made in accordance with Article 3:5 of the Protocol (DPC/PTL/W/40/Rev.2).

17. The Committee of the Protocol Regarding Milk Fat took note of the additional information furnished by New Zealand and the European Communities regarding sales notified in relation to the Decision of 12 December 1990 (DPC/PTL/16). These participants explained that mainly due to payment difficulties experienced by the USSR, shipments had been delayed and deliveries could not be completed by 30 September 1991. Because of the inability of the USSR to take receipt of the deliveries, the scheduled uncompleted deliveries would be completed during the period 1 October-31 December 1991, in conformity with the provisions of the said Decision. The representative of the EC noted that uncertainties persisted as to whether the quantity of 200,000 tons initially contracted would be delivered in its entirety by the end of December 1991. He reserved the right of his delegation to revert to the matter in due course if necessary. The representative of Uruguay expressed concern that the additional period of 1 October to 31 December 1991, in order to complete the deliveries, had become necessary also due to certain commercial problems rather than difficulties of the USSR taking delivery. The extension of deliveries would not consequently be in conformity with the derogation. The representatives of New Zealand and the European Communities strongly rebutted this view.

18. In reply to a question, the representative of the EC informed the Committees of a request by the USSR made very recently for massive food aid including dairy products, e.g. 350,000 tons of butter. Certain delegations felt that such transactions might adversely affect their commercial interests. They recalled the provisions for consultations contained in the Arrangement and they stressed their rights for appropriate consultations. The representative of Australia requested that the matter be maintained on the agenda for the next regular meetings and reserved the right to request the Chairman to convene a special meeting on this issue.

19. The Committees reviewed the level of minimum prices of products covered by the respective Protocols as required in the Arrangement. The Committees noted proposals by two delegations to modify the minimum export prices for milk powders and for butter. However, other delegations felt that more time was needed to reflect on the proposed changes and that persisting uncertainties in the market made it difficult to take a decision at this time. The present price levels were consequently maintained and participants were urged to respect them. It was agreed to revert to this matter at the next regular meetings of the Committees.

20. The Committees had a preliminary discussion on the relationship between minimum export prices fixed for pilot products. They took note of a comment that it might be appropriate to re-examine the ratio between the minimum export prices for butter oil and butter. Participants wanted to reflect further on the matter and it was agreed to revert to it at the next regular meetings. Participants wishing to furnish background notes in this connection were invited to do so well before the December meetings.

21. The next regular sessions of the Committees were envisaged to be held on 9 and 10 December 1991.

22. In response to questions raised during the Protocol Committee meetings about the values and destinations of South African exports, the representative of South Africa indicated an investigation of the situation had made it apparent that the statistics provided did not reflect the actual situation, and an updated response to the questionnaire would be submitted shortly. The South African Dairy Board had indicated that no butter had been exported, and that the sole exports of skimmed milk powder had been those made to Japan for feed use, as notified. Apparently sales made into intervention to the South African Dairy Board and destined for exports had been reported as actual exports in the statistics provided. In response to a question on internal food assistance, he remarked that South Africa maintained a price support system which was annually notified to the GATT. Food security was a high priority for South Africa, and it was possible that dairy products might be involved. He indicated that he would provide full information as soon as possible.

23. The representative of the European Community indicated that his question stemmed from the fact that at the previous meetings the Committees had refused South Africa's request for a derogation to sell skimmed milk powder and butter below the minimum price levels. He had recently read press criticisms about the South African Government selling butter and skimmed milk powder at below minimum prices rather than making the products available for domestic food aid. He recalled that last year South Africa had exported below the minimum prices in spite of the fact that it had been refused a derogation.

24. The Council took note of the report on the implementation of the Protocol Regarding Certain Cheeses, the Protocol Regarding Certain Milk Powders and the Protocol Regarding Milk Fat, expressing its sincere thanks to the Chairman of the Committees for his excellent work and for the reports. It also noted the comments made under this agenda item.

25. The Council concluded that the International Dairy Arrangement was functioning to the satisfaction of its participants and had proven to be a valuable instrument for restoring and maintaining the order in international dairy trade, notably through concerted disciplines relating to export price fixing and through actions taken to cope with problems occasionally occurring in particular markets.

Replies to Questionnaires 4 and 5

26. The Chairman recalled that with respect to data on milk and dairy products other than those covered by the Protocols, the secretariat had circulated a reminder on 9 August 1991, in the form of an airgram, requesting annual data according to Rule 23 of the Rules of Procedure or updates on previous replies. A list of the replies to date to Questionnaires 4 and 5 is given in the Annex.

27. The representative of Finland stated that his delegation would be making a submission as soon as some mistakes had been corrected.

28. 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 of measures affecting trade in dairy products should be distributed to participants at the beginning of each three-year period. The Arrangement would enter its fifth three-year period of operation on 1 January 1992, and the inventory should consequently be completely revised. He requested delegations to take the necessary steps to ensure a timely submission to the Secretariat of the relevant information, which would subsequently be circulated in the DPC/INV/5/- series.

29. The Committees took note of the information submitted to them and of the comments made.

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

30. 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/108 and Addendum 1), a note on food-aid operations relating to dairy products (DPC/W/110), and relevant statistical information (DPC/W/109, DPC/PTL/W/57, 58 and 59). Parts of the status report and the relevant statistical information had been subject to consideration in the Committees of the Protocols. As comments made in the Protocol Committees would be reflected in the report of the meetings, to be circulated in the DPC/PTL/- series, they need not be repeated in the Council. Several delegations expressed their appreciation for an excellent status report which was effectively giving an accurate picture of the market situation.

31. The representative of New Zealand again noted New Zealand's desire that the recent price improvements, especially for powders, be underpinned by an increase in the minimum prices. She recalled that the levels of the prices should take into account the need to maintain a long-term minimum return to the most economic producers. However, New Zealand had taken note

of the position of other participants in this regard and could agree to revert to this matter at the December meetings of the Protocol Committees.

32. With respect to milk fat, she reiterated that the USSR was an extremely important commercial market for New Zealand. An extension or rollover of the current derogation permitting sales of butter below the minimum price would be difficult to accept. At the same time, New Zealand was concerned about the commercial implications of the USSR's request for food aid, and wished to be consulted in advance of such aid to minimize the adverse effects on commercial sales.

33. The representative of the European Community noted that the rise in prices was a very recent occurrence, and that the maintenance of minimum returns to the most economic producers was only one of a number of factors to be considered according to Article 3.3(b) of the Protocol Regarding Certain Milk Powders. His view of the market situation was quite different, as the constantly increasing costs of processing would encourage more developing countries to produce their own needs. The USSR could be expected to increase its productivity in a few years, with the introduction of economic incentives and new technology, and would reduce its import demand. Because of these long-term expectations, the EC had begun to reduce its production in 1984 and was now at the level it considered equitable in terms of its world market presence. For 1991/92 a 2 per cent cut in quotas had been decided and another 3 per cent reduction in dairy quotas was being proposed for 1992/93. However, the EC reductions were being offset by increases in production in other countries.

34. The Community representative further indicated that his interpretation of the provisions of the Arrangement did not require advance notification of food aid that was not part of a regular program. In his view, the specific provisions of Article V with respect to food aid took precedence over the more general requirements of Article IV:6 for consultations on any matter affecting the Arrangement. The possible effects food aid might have on commercial sales could not be determined unless the Usual Marketing Requirements had been identified by the FAO Consultative Sub-Committee on

Surplus Disposal. He repeatedly stressed the exceptional character of this particular request for food aid, its emergency nature and its overriding political importance in terms of the future of the USSR. He indicated that for those reasons the decisions on the food aid would be taken at the highest political levels and were not dependent on the provisions of the International Dairy Arrangement.

35. In response to the comments of the Community representative, the representative of New Zealand expressed the view that what was needed was a reduction in support which fostered surplus production. The concerns of consuming countries could best be met through free trade. The representative of Australia questioned the status of the Community as a "traditional" exporter, noting that until the 1970's the EC had been a net importer of dairy products. It was the EC policies stimulating excess production that had permitted the EC to become an exporter. He also observed that Australian dairy production had also declined and was now 20 per cent below 1970 levels.

36. Several delegations questioned the EC interpretation of its obligations under the Arrangement. They stressed the need for consultations in advance of the provision of food aid, in order to minimize the potential adverse effects on commercial sales to the USSR. The representative of Argentina noted that the technical expertise of the Council could be helpful in assessing the actual needs of the USSR. New Zealand reserved its right to request consultations under Article IV:6 of the Arrangement.

37. The Council took note of the status report on the world market for dairy products (DPC/W/108 and Addendum 1), notes on food aid operations and on milk deliveries, and the statistical information provided, as well as 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 twelfth annual report under the International Dairy Arrangement.

D. Report to the CONTRACTING PARTIES

38. The Chairman recalled that according to a decision of the CONTRACTING PARTIES of 28 November 1979 (BISD26S/201), the Council was requested to report on its activities. The Council agreed that the Chairman should submit, on his own responsibility, a concise factual report to the CONTRACTING PARTIES on the activities of the International Dairy Products Council and of the Protocol Committees since the 1990 session of the CONTRACTING PARTIES.

E. Tentative schedule of further meetings

39. 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). The Council adopted the following tentative schedule of meetings:

1991

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

1992

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

18 March International Dairy Products Council

15-16 June Committee of the Protocol Regarding Certain Cheeses
 Committee of the Protocol Regarding Certain Milk Powders
 Committee of the Protocol Regarding Milk Fat

14-15 September Committee of the Protocol Regarding Milk Fat
Committee of the Protocol Regarding Certain Cheeses
Committee of the Protocol Regarding Certain Milk Powders

16 September International Dairy Products Council

14-15 December Committee of the Protocol Regarding Certain Milk Powders
Committee of the Protocol Regarding Milk Fat
Committee of the Protocol Regarding Certain Cheeses

F. Note by the Chairman on the present meeting

40. When closing the meeting the Chairman suggested circulating a brief report of the Council meeting. The Council agreed to this and a Note by the Chairman was subsequently distributed as L/6904.

G. Date of the next regular session

41. The International Dairy Products Council intends to hold its next regular session on 18 March 1992.

ANNEX

Questionnaire 4

The replies to Questionnaire 4 received in 1991 are the following:

Argentina	DPC/STAT/13/Add.37, 38 and 39
Australia	DPC/STAT/12/Add.23 and 24
Bulgaria	DPC/STAT/14/Add.10
Canada	DPC/STAT/3/Add.25, 26 and 27
European Economic Community	DPC/STAT/11/Rev.13 and 14
Finland	DPC/STAT/9/Add.1
Hungary	DPC/STAT/1/Add.11
Norway	DPC/STAT/5/Add.11
New Zealand	DPC/STAT/10/Add.23
Poland	DPC/STAT/19/Add.15
South Africa	DPC/STAT/15/Add.10
Sweden	DPC/STAT/2/Add.12
Switzerland	DPC/STAT/8/Add.29
Uruguay	DPC/STAT/18/Add.29

Questionnaire 5

On 13 September 1991 the inventory included the following:

Australia	- Add.10 and Suppl.1
Canada	- Add.3 - Add.11, Suppl.1, Suppl.2, Suppl.3 and Suppl.4
European Economic Community	- Add.8 and Suppl.1
Finland	- Add.12
Japan	- Add.2
New Zealand	- Add.6, Suppl.1 and Suppl.2
Norway	- Add.1
Poland	- Add.7
Romania	- Add.14
South Africa	- Add.4, Suppl.1 and Suppl.2
Sweden	- Add.9 and Suppl.1
Switzerland	- Add.5 and Suppl.1
Uruguay	- Add.13