

# GENERAL AGREEMENT ON

RESTRICTED

Spec(92)10  
8 April 1992

## TARIFFS AND TRADE

---

International Dairy Arrangement

### INTERNATIONAL DAIRY PRODUCTS COUNCIL

#### TWENTY-SIXTH SESSION

##### Draft Report

Chairman: Mr. M. Jordana

1. The International Dairy Products Council held its twenty-sixth session on 17 March 1992.
2. The Council adopted the following agenda:
  - A. Election of Chairman and Vice-Chairman
  - B. Admission of observers
  - 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 of the Council
3. In accordance with Rule 2 of the Rules of Procedure, Mr. Miles Jordana (Australia) was elected Chairman of the Council for 1992/93 and Mr. Kim Luotonen (Finland) was elected Vice-Chairman.

B. Admission of observers

4. The Council welcomed a representative of Mexico as an observer, in accordance with Rule 10 of the Rules of Procedure, which permits contracting parties which are not signatories to the Arrangement to follow the proceedings of the Council in an observer capacity.

5. As had been agreed by the Council since September 1984, the Economic Commission for Europe, FAO, OECD and UNCTAD had been invited to participate as observers at sessions of the Council. A representative of the Economic Commission for Europe was present.

C. Review of the functioning of the Arrangement

Reports of the forty-eighth and the forty-ninth 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-eighth 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/22). A full report of these meetings had been approved recently and circulated as document DPC/PTL/23. Concerning the forty-ninth 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 Milk Powders, the Committee of the Protocol Regarding Milk Fat and the Committee of the Protocol Regarding Certain Cheeses held their forty-ninth sessions on 16 March 1992. Mr. Kim Luotonen (Finland) was elected Chairman for 1992/93.

8. 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.

9. The Committees noted that world skimmed milk powder production had decreased in 1991 by 3.5 per cent to 3.85 million tons and was projected to again drop by 6 per cent in 1992. World production of whole milk powder recovered appreciably in 1991 and increased by about 5 per cent compared to 1990. World butter and butter oil production decreased by 2 per cent in 1991, amounting to 7.55 million tons, and was forecast to decrease by a further 2.5 per cent in 1992. World cheese production grew by another 1 per cent in 1991 to 14.8 million tons and a further growth of the same order was anticipated for 1992.

10. World consumption of skimmed milk powder declined in 1991 and this downward trend was likely to continue in 1992. Consumption of whole milk powder recovered in 1991. World consumption of butter declined by 2 per cent in 1991. In the short and medium term, it was likely that this trend would continue. Cheese consumption for the major producing countries continued to expand, up 2 per cent in 1991, with a similar growth expected for 1992.

11. There was a further decline of 11 per cent in world exports of skimmed milk powder in 1991, when they amounted to 800,000 tons. However, the outlook for 1992 was for an increase in international trade due to increased efforts by major producers to reduce growing stocks and renewed interest from traditional customers. Exports of whole milk powder by major suppliers recovered strongly in 1991 and reached new record levels. Import demand for butter continued to weaken, reflecting a continued decline in milk fat consumption in many countries. As a result of a further deterioration of the market for butter, world exports in 1991 decreased to some 680,000 tons, 6 per cent below 1990 levels. World exports of cheese were up 2 per cent for 1991 and reached some 905,000 tons. The outlook for 1992 was for a further growth of the same order.

12. Aggregate skimmed milk powder stocks in the European Communities, North America and Oceania on 1 January 1992, estimated at 575,000 tons, were 21 per cent higher than a year earlier. Butter stocks in these three regions, estimated at 670,000 tons, remained relatively stable compared to their level on 1 January 1991. World stocks at the end of 1991 were estimated at around 1 million tons both for skimmed milk powder and for butter. World stock levels were expected to decrease in 1992, reflecting successful efforts to contain accumulation and to dispose of surpluses.

13. The market situation for skimmed milk powder continued to improve in early 1992 as a result of large purchases by Mexico. The market conditions for whole milk powder remained generally sound despite weaker butterfat prices. Prices of butter weakened in the first quarter of 1992 and considerable uncertainty persisted regarding the outlook for the coming months, as the final quantities to be made available to the former USSR area as either food aid or commercial sales were not known. The situation in that area remained crucial to the butter market, which continued to be fragile. For most cheeses covered by the Protocol, the market situation was steady and prices were expected to remain at current levels or even increase throughout 1992.

14. For the first quarter of 1992, the following ranges of prices were reported (per ton f.o.b.):

- between US\$1,550 and US\$1,700 for skimmed milk powder for human consumption;
- between US\$1,550 and US\$1,700 for whole milk powder;
- between US\$1,400 and US\$1,550 for butter;
- between US\$1,700 and US\$1,950 for anhydrous milk fat;
- between US\$1,750 and US\$1,950 for Cheddar cheese.

15. Participants exchanged information on transactions other than normal commercial transactions. The representative of the European Communities provided information regarding food aid to the former USSR area and to other Eastern European countries. In view of the great commercial importance of the CIS market, certain participants recalled their concern that such aid should not disrupt normal commercial trade. The need to prevent deviation of food-aid products by recipients to third markets was also stressed. The representative of the European Communities told the Committees that all possible measures were being taken in order to ensure that the products furnished as food aid were consumed in the countries to which they were donated.

16. The Committee of the Protocol Regarding Certain Milk Powders took note of the summary table regarding sales made in accordance with Article 3:5 of the Protocol (DPC/PTL/W/40/Rev.3).

17. The Committee of the Protocol Regarding Milk Fat took note of the additional information furnished by the European Communities and New Zealand regarding sales notified in relation to the Decision of 12 December 1990 (DPC/PTL/16). It was recalled that under the derogation, sales of 311,000 tons were contracted by four participants. However, not all participants had been able to complete the deliveries by 31 December 1991, mainly due to payment difficulties experienced by the USSR. Total deliveries under this derogation had only been 95,500 tons for the European Communities and around 70,000 tons for New Zealand, giving a total of approximately 176,000 tons for the four participants having exported under this derogation.

18. The Committee of the Protocol Regarding Certain Cheeses took note of additional information furnished by Australia and New Zealand regarding operations under Article 7:2 of the Protocol. The Committee also took note of the summary table regarding sales made in accordance with that provision (DPC/PTL/W/20/Rev.2).

19. The Committees reviewed the level of minimum prices of products covered by the respective Protocols. An earlier proposal to increase the minimum prices for milk powders was maintained. However, several participants wished to reflect further on the matter as they held some doubts as to the necessity or appropriateness of modifying the minimum export prices at this moment. The present price levels were consequently unchanged. It was confirmed that the matter would be reverted to at the September meetings of the Committees. However, the matter could be raised at an earlier meeting if so requested.

20. The Committees had a preliminary discussion on the relationship between minimum export prices fixed for pilot products. The Committees took note of the background note furnished by Australia (DPC/PTL/W/70). Participants wanted to reflect further on the matter and it was agreed to revert to it at the September meetings of the Committees in the framework of the annual review of minimum prices. In order to facilitate the consideration of the matter in the September meetings, participants were invited to furnish background notes in this connection well before those meetings.

21. The next regular sessions of the Committees are tentatively scheduled for 15 and 16 June 1992.

22. 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.

23. 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 maintaining order in international dairy trade.

Replies to Questionnaires 4 and 5

24. 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 14 February 1992, 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.

25. 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 entered its fifth three-year period of operation on 1 January 1992, and the inventory should consequently be completely revised.

26. A number of participants indicated their difficulty in replying to Questionnaire 5 by the suggested date as their dairy policies would only be determined in the coming months. It was suggested that these participants should at this time provide a brief indication that there had been no change from their previous notification but that modifications were expected by a specified date. A complete response should then be provided as soon as the decisions had been made. The information submitted to the Secretariat would subsequently be circulated in the DPC/INV/5/- series.

27. The Council took note of the documentation and of the comments made.

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

28. For its traditional evaluation of the situation in, and outlook for, the world market for dairy products, the Council had before it various documents prepared by the Secretariat; namely a status report on the world market for dairy products (DPC/W/111), a note on food-aid operations

relating to dairy products (DPC/W/113), and relevant statistical information (DPC/W/112, DPC/PTL/W/71, 72 and 73). Parts of the status report and the relevant statistical information had been subject to consideration in the Committees of the Protocols. Comments made in the Protocol Committees would be reflected in the report of the meetings, to be circulated in the DPC/PTL/- series. Several delegations expressed their appreciation for the excellent quality of the status report.

29. The Secretariat reported on some statistical information with respect to the dairy sectors of the former Soviet republics, which had been presented at a recent meeting of the International Dairy Federation. The representative of the European Communities noted the need for great caution with respect to statistical information on that region, and in particular the difficulty in determining valid data on consumption. He noted that historical consumption levels had been established under a system of controlled prices, and that with prices now rapidly increasing, considerable changes in consumption patterns could emerge. He suggested that it would take some time before reliable statistics might be available on which governments could base their actions or provide guidance to their producers and traders. A number of delegations agreed with the need for caution with respect to the reliability of such statistics at this time, but noted the value of any information which might be available on such an important region.

30. The representative of Australia asked whether any participants had information with respect to the priority being given to receiving dairy products as food aid by the former Soviet republics. He recalled reports that meat products were no longer receiving the priority demand they had previously been given, as a number of the republics had reportedly begun slaughtering cattle and dairy herds in order to fulfil their beef demand. The representative of the European Communities suggested that such issues were being discussed by the so-called G-24, which was coordinating aid efforts among donor countries. Other delegates disagreed, noting that the G-24 only dealt with donor's programs, not evaluation of the priority being given to certain products by the recipient countries. They were of the

view that it was appropriate for the International Dairy Council to focus on any issue which could have important commercial implications for the dairy sector. The observer from the Economic Commission for Europe noted the difficulty in determining what had constituted "normal" commercial trade with the USSR, given that for the past several years most trade to that region had been under special terms.

31. The representative of the European Communities observed that the International Dairy Arrangement was not up-to-date, as its provisions with respect to food aid were limited to aid to developing countries and did not address the current situation. He further noted that countries were addressing the issue of aid to the region in different ways. Whereas the European Communities were providing donations, others were offering concessional sales or a combination of grants and sales. He insisted that the European Communities were not seeking to use aid to the former Soviet republics to gain market advantages, nor as a means of surplus disposal. Because of this the European Communities were taking every precaution to ensure that aid donations were not deviated from their intended recipients.

32. The representative of the European Communities further noted that the reductions in dairy production which were contributing to the improvement in the dairy situation were occurring only in Europe. At the same time as the European Communities and other countries in northern and eastern Europe cut back on production, production increases had been reported in Australia and New Zealand. Since 1984 the European Communities had made efforts to reduce production, and quota levels had been reduced by 2 per cent. If the reforms of the Common Agricultural Policy were implemented in line with the current proposals, production quotas would be decreased by a further 3 per cent. The effects of such a quota cut would be a reduction equivalent to 150,000 tons of butter and 278,000 tons of skimmed milk powder, more than twice the production levels of Australia and New Zealand combined.

33. The representative of the European Communities indicated that, furthermore, if the Uruguay Round proposals were implemented, the European Communities would be required to undertake even further reductions in

quantities or prices. Along with this, the minimum access obligations of the European Communities would amount to an additional 100,000 tons of cheese imports, double the current EC import levels. At the same time, the European Communities would be required to reduce subsidized exports by 24 per cent. Because EC production costs could never be as low as those in some other producing areas, even with reductions in internal prices, the European Communities could never export dairy products without subsidies to compensate for the difference in production costs. He stressed that one could not demand too much of the European Communities, and expressed concern that other producers would be tempted to increase their production in response to EC reductions.

34. A further factor identified by the representative of the European Communities was the likelihood that the Eastern European and ex-USSR countries would be looking to export their agricultural products in their search for hard currency earnings. These countries, who were largely dairy producers, would seek to export primarily to their neighbouring European countries. He asked that all GATT contracting parties be willing to make the necessary contributions in the area of agricultural reform.

35. The representative of Australia also noted his concern that the world dairy situation remained volatile, in particular given the uncertainty surrounding such a major import area as the ex-USSR. He recognized that changes in such enormous production centres as the European Communities had major implications for the world market. But he recalled that the European Commission itself estimated the EC dairy surplus at 25 per cent of total production, including both the massive surplus disposal levels as well as the costly subsidized exports. However, the expectations surrounding the upcoming decisions on the EC price package did not give the appearance that the European Communities were prepared to act quickly to make all the necessary reductions.

36. The representative of New Zealand stated that in his country there was no conscious policy of expanding production, rather production levels were largely determined by climatic conditions. With respect to the Uruguay

Round negotiations, he noted that the proposed package was largely acceptable to most participants, although some obviously had remaining serious concerns. The proposals would lead to a first step in a painful adjustment process, with some serious implications for producers and traders. But the reform was long delayed and needed to be started as there was much at stake.

37. The representative of Japan drew the attention of participants to the fact that Japan was one of the largest net importers of dairy products, and that current imports of cheese amounted to about 80 per cent of consumption, whereas those of butter and skimmed milk powder were well above the levels proscribed in the proposed Uruguay Round agreement. The representative of Switzerland noted that the climatic conditions in his country were such as to favour dairy production over all other agricultural products. He further stressed that with respect to certain dairy products, and in particular cheeses, quality differences were perhaps the single most important determinant of trade volumes and prices.

38. The Council took note of the status report on the world market for dairy products (DPC/W/111), 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.

E. Note by the Chairman on the present meeting

39. The Chairman presented a brief report of the Council meeting, which he suggested be circulated to Contracting Parties. The Council agreed to this and a Note by the Chairman was subsequently distributed as L/6990.

ANNEX

Questionnaire 4

The replies to Questionnaire 4 received to date in 1992 are the following:

Argentina	DPC/STAT/13/Add.40
Australia	DPC/STAT/12/Add.25
Canada	DPC/STAT/3/Add.28
Finland	DPC/STAT/9/Add.12
Norway	DPC/STAT/5/Add.12
Poland	DPC/STAT/19/Add.16
South Africa	DPC/STAT/15/Add.11
Sweden	DPC/STAT/2/Add.13

Questionnaire 5

On 17 March 1992 the inventory included the following:

Australia	- DPC/INV/5/Add.3
Canada	- DPC/INV/5/Add.2
New Zealand	- DPC/INV/5/Add.1
South Africa	- DPC/INV/5/Add.4