

**GENERAL AGREEMENT
ON TARIFFS AND TRADE**

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International Dairy Arrangement

INTERNATIONAL DAIRY PRODUCTS COUNCIL

THIRTIETH SESSION

Draft Report

Chairman: Mr. Jorge A. Ruiz

1. The International Dairy Products Council held its thirtieth session from 21-28 March 1994.
2. The Council adopted the following agenda:
 - A. Election of Chairman and Vice-Chairman
 - B. Admission of observers
 - C. Revision of the International Dairy Arrangement
 - D. Review of the functioning of the Arrangement
 - E. Evaluation of the situation in and the outlook for the world market for dairy products
 - F. Note by the Chairman on the present meeting
 - G. Date of the next regular session.

Election of Chairman and Vice-Chairman of the Council

3. In accordance with the Rules of Procedure, Mr. Jorge A. Ruiz (Argentina) was re-elected Chairman of the Council for 1994/95. Mr. Andras Lakatos (Hungary) was elected Vice-Chairman.

Admission of observers

4. The Council considered the request for observer status by the representative of the People's Republic of China. The Council **decided** that China should be invited to participate in an observer

capacity in the work of the International Dairy Arrangement, in light of the participation of China as an observer in the Council of Representatives of the GATT CONTRACTING PARTIES.

5. The Council welcomed the representatives of Austria and Canada as observers, in accordance with Rule 10 of the Rules of Procedures which permits contracting parties not signatories to the Arrangement to follow the proceedings of the Council in an observer capacity.

6. 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. The Council welcomed the representatives from FAO and UNCTAD.

Revision of the International Dairy Arrangement

7. The Council considered the proposed revisions to the International Dairy Arrangement. The Chairman recalled that these revisions had been previously discussed at informal sessions of the Council and that some of them were necessary for the inclusion of the International Dairy Arrangement in Annex 4 of the Agreement Establishing the World Trade Organization. Other revisions were proposed to simplify and clarify the text of the Arrangement, without affecting its substantive provisions and operation.

8. The representative of Japan proposed that paragraphs 2(a) and 3(b) of Article 3 be modified so that, when establishing or modifying the levels of minimum export prices, the expected effect on the world dairy market of the reductions in export subsidies in accordance with the relevant provisions of the Agreement on Agriculture would be taken into account. A number of participants indicated that, in considering the current market situation and other relevant economic factors of the world market, as already provided in paragraphs 2(a) and 3(b) of Article 3, any effects of the reductions in export subsidies would already be taken into account and the modifications proposed by Japan were unnecessarily redundant.

9. The Council agreed to include in the text of the new International Dairy Agreement, in Attachment C, the revised European Communities register of processes for the de-naturing of milk powder and the register of Poland's processes for the de-naturing of milk powder, which were adopted by the Committee of the Protocol Regarding Certain Milk Powders at its fifty-seventh session. The

Council also agreed to include, in Attachment A of the new International Dairy Agreement, the reference points for exports of milk fats from Poland which were accepted by the Committee of the Protocol Regarding Milk Fat at its session of 21-28 March 1994.

10. The Council **agreed** to accept the proposed revisions to the Arrangement and **agreed** that the text of the new International Dairy Agreement be opened for signature at the Ministerial Meeting in Marrakesh at which the Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations (including the Agreement Establishing the World Trade Organization) would be formally adopted. The Council noted that the signing of the International Dairy Agreement would be separate from the signing of the Final Act. The text of the new International Dairy Agreement was subsequently distributed as document DPC/42.

Review of the functioning of the Arrangement

11. The Council reviewed 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 fifty-sixth sessions of 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 (DPC/PTL/35), which had taken place in December 1993. A full report of these meetings had recently been approved by the Protocol Committees and circulated as document DPC/PTL/37. Concerning the fifty-seventh sessions of the Protocol Committees, the Chairman of the Committees presented the following oral report to the Council.

12. 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 fifty-seventh sessions from 21 to 28 March 1994. Mr. Andras Lakatos was elected Chairman for 1994/95.

13. After examining the replies to the questionnaires, the Committees reviewed the market situation for 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.

14. The Committees noted that in 1993, world production of skimmed milk powder decreased by 2 per cent to 3.55 million tons. World production of whole milk powder is estimated to have declined slightly to 2.3 million tons. World butter and butter oil production also declined slightly to 7 million tons. World cheese production (all kinds including curd) grew by a further 1½ per cent in 1993.

15. World consumption of skimmed milk powder continued to decline in 1993, as production dropped and world prices remained relatively high. World butter consumption continued to drop in 1993. Factors contributing to the reduction in demand include reduced purchasing power and shortage of foreign currency in Central and Eastern Europe, dietary concerns and the recession in the developed countries. World cheese consumption continued its long-term growth trend of about 2 per cent per year, and is expected to do so beyond 1993.

16. World exports of skimmed milk powder are estimated to have declined in 1993, as exports of IDA participants decreased by 13 per cent during the first three quarters of 1993 compared to the same period in 1992. World whole milk powder exports may have increased slightly in 1993. Whole milk powder exports of IDA participants increased by 2 per cent during the first three quarters of 1993. World butter exports and concessional sales are estimated at 815 thousand tons in 1993. After having stagnated in 1992, world exports of cheese are estimated to have shown fairly strong growth in 1993. Cheese exports of IDA participants increased by more than 7 per cent during the first three quarters of 1993.

17. World stocks of skimmed milk powder decreased substantially in 1992, reflecting successful efforts to reduce production and increase exports due to high world market prices. Stocks continued to remain low at the end of 1993. At the end of 1993, stocks of butter in the main producing countries remained relatively high, even if substantially below 1992's level. In particular, there were steep decreases in stocks in Canada and the United States, and a smaller decline in the European Communities. On 1 January 1993, world cheese stocks were 4 per cent lower than a year earlier, and a further decline was estimated for the end of 1993.

18. After a steady increase in 1992, in the first half of 1993 the market for milk powders was characterized by slightly lower prices and reduced demand. Prices declined more sharply in the third quarter, but prices firmed in the fourth quarter. As regards the butter market, weak international demand led to a further drop in world prices in the first half of 1993, with few commercial sales reported. In the second half of 1993, the world market situation for butter remained depressed, with demand very low and concessional sales and donations continuing to have a negative effect on commercial demand. International Cheddar cheese prices remained steady throughout 1992 and 1993. Demand for cheese has been growing steadily in recent years, notably in the Asian markets.

19. In the first quarter of 1994, the world market situation for butter and butter oil remained depressed, with the economic weakness in the CIS, the African and Middle East markets being key factors. Butter and butter oil prices were at the respective GATT minimum prices and some sales were reported below the minimum prices, while prices for sales to the former Soviet Union were significantly below the GATT minimum prices. Milk powder prices have firmed in the beginning of the year but softened during the remainder of the first quarter of 1994, partly as a result of currency movements. Demand remains strong for cheese, and prices have remained firm. The Committees also noted that initial allocations for milk fat and milk powders under the United States Dairy Export Incentive Program were lower this year than in 1992.

20. For the first quarter of 1994, the following price ranges were reported (per ton f.o.b.):

- between US\$1,450 and US\$1,600 for skimmed milk powder for human consumption;
- between US\$1,380 and US\$1,560 for whole milk powder;
- between US\$1,350 and US\$1,480 for butter (excluding sales under derogation);
- between US\$1,625 and US\$1,780 for anhydrous milk fat (excluding sales under derogation);
- between US\$1,650 and US\$2,000 for Cheddar cheese.

21. The Committee of the Protocol Regarding Certain Milk Powders took note of the information furnished by New Zealand and Poland regarding operations under Article 3:5 of the Protocol.

22. In June 1993, the Committee of the Protocol Regarding Milk Fat granted a derogation from the minimum price provisions of the Protocol for butter and butter oil exports to countries of the former Soviet Union, up to a maximum of 50,000 tons per participant, under contracts concluded before 31 December 1993 and for deliveries before 31 March 1994. In December 1993, the Committee extended the derogation for the sales contracts until 31 March 1994, and for deliveries until 30 June 1994.

23. The Committee of the Protocol Regarding Milk Fat took note of the notifications furnished by Australia, Finland, Hungary, New Zealand and Poland pursuant to the Decisions taken on 22 June 1993 and 20 December 1993 under Article 7:1 of the Protocol. As of 28 March 1994, a total of 82,459 tons of derogation sales had been notified.

24. The Committee of the Protocol Regarding Certain Milk Powders, pursuant to Article 3:5 of the Protocol, approved the inclusion of the Polish processes and control measures for the denaturing of skimmed milk powder and buttermilk powder in the register established by the Committee. It also approved a revised text of European Communities' processes and control measures to be included in Attachment C of the revised text of the International Dairy Arrangement. The Committee of the Protocol Regarding Milk Fat amended, upon request by Poland and in pursuance to Article 2:1 of the Protocol, the list of reference points of the Protocol. The Committee Regarding Milk Powders and the Committee Regarding Milk Fat agreed that the decisions with respect to Poland would be the subject of a Procès-Verbal signed by the Director-General of the CONTRACTING PARTIES to the General Agreement.

25. The Committees reviewed the minimum export prices for products covered by the Protocols on the basis of the criteria established by the Arrangement. The Committee Regarding Milk Fat considered proposals for a suspension and/or reduction of the minimum prices for butter and anhydrous milk fat. The Committee noted the differences in the analysis of the market situation by different participants and could not reach agreement on a change to the minimum prices.

26. In the absence of an agreement on a change to the minimum prices, the Committee Regarding Milk Fat considered a request for the extension of the derogation for sales of milk fats to the former Soviet Union. It was agreed to revert to this matter in the near future.

27. The next regular sessions of the Committees will be held on 20 and 21 June 1994, subject to confirmation by the Secretariat.

28. In response to the report of the meeting of the Committee of the Protocol Regarding Milk Fat, the representative of Australia indicated that he must make, with regret, the following statement:

29. The world milkfats market had undergone a significant structural change in recent years. This was due to several factors, including developments in the butterfat market in the former Soviet Union (FSU). The IDA Milkfat Protocol was no longer relevant to its objective of providing a price stabilization mechanism. It had become a market support mechanism. Butterfat minimum prices had been fixed since 1989 at unrealistic levels and had not adjusted to the fundamental changes in market

conditions. The same situation did not apply to the Cheese and Milk Powders Protocols. There had not been structural changes in these markets and the protocols continued to function as stabilization measures.

30. The limited derogation for butterfat sales to the FSU since June 1993 was agreed only as a temporary measure. It was not an appropriate option longer term. Australia had continually stressed the need to find a lasting and realistic solution to the problem of structural imbalances in the world butterfats market. They had worked hard to achieve an effective outcome for more than twelve months including presentation of detailed discussion and options papers.

31. Australia had clear and effective legislation for enforcement of IDA obligations. Their dairy exporters faced severe economic and trade penalties if they sold product below IDA minimum prices. Australian Ministers were charged with the responsibility of ensuring there was adherence to legislation. Trade had been taking place for some time at prices below the milkfat minimum prices. The evidence was that the range of traded prices was US\$950-1,150/ton. There had been reports of trade as low as US\$900/ton.

32. As Australia had stated previously, they were well aware of, and appreciated, efforts by other members to satisfactorily resolve this issue. However, it was clear to them that a new butterfats minimum price of US\$1,000/ton would not resolve the problem. A price at that level would mean the Arrangement would still be a support mechanism as it was still within the range of traded prices and would not restore the fundamental credibility of the Milk Fat Protocol.

33. A new minimum price of US\$1,000/ton would not resolve Australia's problems with the Protocol. They were not in this Arrangement to see Australian exporters disadvantaged or to perpetuate for any further length of time the high risk for Ministers and exporters of breaches of legislation.

34. It was their view that a new minimum price of US\$1,000/ton would not restore the credibility of the Milk Fat Protocol and they were concerned, in the lead-up to Marrakesh, this could be a consideration in obtaining signature by some current members to the new IDA Agreement.

35. Australia had made it clear from the outset that it had only three options available to it. The first, which they still strongly advocated, was suspension of the milkfats minimum prices. They had

indicated that they had no interest, for sensible commercial reasons, in seeing a free-fall in prices under that option and would work to ensure this did not occur. The second option was a minimum price of US\$900/ton. That would be below the bottom end of the traded prices but only by a very small margin. The third option was withdrawal from the Milk Fat Protocol.

36. The representative of Australia stated that they had neither threatened nor issued ultimatums. They had simply stated frankly, from the outset, the limits of their position. They had now been told that there could not be agreement to suspend the minimum prices or to accept a minimum price of US\$900/ton. While they did appreciate the efforts of all to resolve their difficulty, the representative of Australia had to say with regret that Australia was left with no alternative than to initiate steps to withdraw from the Protocol. He was instructed that portfolio Ministers would now initiate procedures to formally recommend to the Government of Australia that Australia withdraw from the Milk Fat Protocol to the International Dairy Arrangement.

37. In proceeding along this route the representative of Australia indicated that he had also been instructed to say that Australia had no commercial interest in seeing further decline in butterfat prices, and that from within or outside the Milkfat Protocol, Australia would continue to behave in a commercially responsible manner.

38. He indicated that it was his understanding that such withdrawal would take effect sixty days after the date on which written notification was received from Australia by the Director-General to the GATT, in accordance with Article VIII(8) of the Arrangement.

39. The Council took note of the report on the implementation of the Protocol Regarding Certain Milk Powders, the Protocol Regarding Milk Fat and the Protocol Regarding Certain Cheeses. It expressed its thanks to the Chairman of the Committees for his excellent work and for the report. The Council also took note, with regret, of the statement by the representative of Australia.

Replies to Questionnaires 4 and 5

40. The Chairman recalled that annual data on milk and dairy products other than those covered by the Protocols was to be provided in Questionnaire 4 according to Rule 23 of the Rules of Procedures. The Secretariat had circulated an airgram on 11 February 1994 requesting such information.

41. The Chairman also recalled that according to Article III of the Arrangement, and to Rule 23 of the Rules of Procedure, participants were to keep the Council informed of any changes in their domestic policies or trade measures which might affect international trade in dairy products through Questionnaire 5.

42. The Council took note of the replies to Questionnaire 4 received from Argentina, Canada, New Zealand, Poland, South Africa and Sweden. The Council also took note of the replies to Questionnaire 5 submitted by South Africa and Switzerland.

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

43. For its 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: a status report on the world market for dairy products (DPC/W/135), a note on food aid (DPC/W/137), a summary table on milk deliveries (DPC/W/136) and various other statistical summaries (DPC/W/122, 123 and 124). 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 as DPC/PTL/ document.

44. The Council took note of the status report and of the information presented in the various statistical summaries.

Note by the Chairman on the present meeting

45. The Chairman presented a brief report of the Council meeting. The report by the Chairman was subsequently distributed as document L/7436.

Date of the next regular session

46. The next regular session of the Council is tentatively scheduled for 21 September 1994.