

GENERAL AGREEMENT ON TARIFFS AND TRADE

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REPORT OF THE INTERNATIONAL DAIRY PRODUCTS COUNCIL

1. This report gives an account of the work done as required by the International Dairy Arrangement and of its functioning, since the last report of the International Dairy Products Council to the CONTRACTING PARTIES (L/5408 of 11 November 1982). It also responds to the request made by the GATT Council at its meeting of 20 April 1983 (C/M/167, page 8) concerning the action to be taken pursuant to the decision concerning the MTN Agreements and Arrangements appearing in the Ministerial Declaration of 29 November 1982 (L/5424, page 11). The report accordingly includes information concerning the adequacy and effectiveness of the Arrangement and the obstacles to its acceptance by the countries concerned, and to this end reproduces some comments which appeared in previous reports (L/5057 of 5 November 1980, L/5226 of 13 November 1981 and L/5408 of 11 November 1982).
2. The International Dairy Arrangement came into force on 1 January 1980. At 10 October 1983, the participants in the Arrangement were the following: Argentina, Australia, Austria, Bulgaria, Egypt, the European Economic Community, Finland, Hungary, Japan, New Zealand, Norway, Poland, Romania, South Africa, Sweden, Switzerland, United States, Uruguay. One of these participants has not yet completed its ratification procedure.
3. The following contracting parties have observer status: Bangladesh, Brazil, Canada, Chile, Cuba, Gabon, Haiti, India, Israel, Ivory Coast, Jamaica, Malta, Nicaragua, Nigeria, Portugal, Spain, Trinidad and Tobago, Turkey, Yugoslavia. Tunisia also has observer status.
4. In addition, in accordance with the rules of procedure adopted by the International Dairy Products Council, the observers for Mexico and Panama have been invited to attend all of its meetings. The Council has also invited the representatives of the Economic Commission for Europe, FAO, OECD and UNCTAD to attend its proceedings as observers.
5. The International Dairy Products Council elected Mr. R. Long (Ireland) as Chairman for 1983 and Mr. A. Cruik (United States) as Vice-Chairman. The chairmanship of the three Committees responsible, respectively, for the Protocol Regarding Certain Milk Powders, the Protocol Regarding Milk Fat and the Protocol Regarding Certain Cheeses, was entrusted to the secretariat.
6. In 1983, the International Dairy Products Council held two regular sessions (24 March and 29 September) and one special meeting (12 September). Since the last report of the Council to the CONTRACTING PARTIES, the Committees responsible for administering the Protocols have met four times (in December 1982 and in March, June and September 1983).

7. Under the provisions of the Arrangement the International Dairy Products Council is required to make, at each of its regular sessions, an evaluation of the situation in and outlook for the world market for dairy products; it considers dairy policies, food aid, the situation regarding products covered and not covered by the Protocols, and any other factors that can help it form an overall picture of the dairy sector. The Council is also required to review the functioning of the Arrangement at each regular session.

Situation in and outlook for the world market for dairy products

8. At its meeting in March 1983, the International Dairy Product Council took note of the concern expressed by the Protocol Committees regarding the markets for products for which they are responsible, especially skimmed milk powder and butter. Emphasizing the gravity of the situation and its trend, the Council underlined that the utmost vigilance was necessary and that in order to avoid disruption of the international market, a continuing responsible attitude on the part of participants and effective co-operation among them were of decisive importance.

9. At the request of the European Economic Community and pursuant to the provisions of Article VII:1(b) of the International Dairy Arrangement, the International Dairy Products Council held a special meeting on 12 September 1983. The reason for holding this meeting was the concern arising from United States sales to Egypt, which in the opinion of the EEC, were prejudicial both to the European Economic Community and to the stabilization of the world market for dairy products on account of the non-observance by the United States of the minimum-prices provisions to be observed under the International Dairy Arrangement and of the provisions of Article 10 of the Agreement on Interpretation and Application of Articles VI, XVI and XXIII of the General Agreement on Tariffs and Trade. Other countries shared the concern at the threat to the stability of international dairy market posed by these sales.

10. The United States delegation stated that it had not violated its international obligations either to the International Dairy Arrangement or the Agreement on Interpretation and Application of Articles VI, XVI and XXIII of the General Agreement on Tariffs and Trade or any other GATT obligations. It provided the Council with the calculations in support of its contention that it had not violated the minimum prices. The United States delegation also noted that the sales represented only a small portion of the world trade in these items while the EEC subsidized trade was significantly larger. Further, it considered that they were within the range of recent price quotes and were the best obtainable in a declining market burdened by large stocks which were the real source of the problem.

11. At the meeting, information was furnished on the action that had been taken. Some participants stressed the danger which such operations represented for the international dairy products market, whose situation was causing grave concern. Reference was made to the need for strict observance of the Arrangement's provisions. The European Economic Community requested the adoption by the Council of a recommendation which would contain a remonstrance or a solemn appeal addressed to the United States to refrain from any repetition of such an action and which would invite all the participants in the Arrangement to reaffirm their commitment to pursue the objectives and strictly observe the provisions of the International Dairy Arrangement as well as all other commitments under the General Agreement on Tariffs and Trade.

12. At the regular session of the International Dairy Products Council, held on 29 September, 1983, a draft resolution presented by the European Economic Community and supported in principle by the great majority of the participating countries was not accepted by the United States for the reasons set out in paragraph 10 above. As a consequence of the position of the United States and another participant, this draft resolution could not be adopted by the Council. The EEC expressed its regret and disappointment that the International Dairy Products Council should not have been in a position to settle the first problem brought before it regarding the application of the provisions of the Arrangement, and in particular observance of the minimum prices. The European Economic Community reserved in this case the right to have recourse to other procedures provided for by the General Agreement or by the Agreement on Interpretation and Application of Articles VI, XVI and XXIII of the General Agreement on Tariffs and Trade.

13. At this session, the International Dairy Products Council took note of the reports of the Protocol Committees in which it was underlined that the situation in the world market for products covered by the Protocols was serious and that for certain products such as cheese it could deteriorate further. The Council recalled that the utmost vigilance was necessary in order to keep market conditions as stable as possible, and it underlined the decisive importance of strict observance of all the provisions of the Arrangement. Hope was expressed that development in the situation would not make necessary recourse to the provisions of Article 4 of each of the Protocols.

14. The Council took note also that, at their September sessions, the Committees had examined the level of the minimum prices of products covered by each of the Protocols. Mention had been made of several factors that would justify an increase in the minimum prices, in particular rising costs to producers. Most delegations felt, nevertheless, that having regard to the international market situation and to the appreciation of the United States dollar, an increase in the minimum prices could not currently be considered desirable. Those prices therefore remained unchanged. These minimum prices are fixed for pilot products defined in the Arrangement, taking account of a number of factors, including the current market situation; they are not to be considered as market prices.

15. In conjunction with their meetings in September, the Protocol Committees had held a joint meeting during which they made a survey of government measures to expand domestic consumption of dairy products, on the basis of information provided by the delegations interested in this work. The Committees agreed to continue the survey. In particular, in order to allow easier evaluation of the information furnished, on the occasion of their December 1983 sessions they will examine a first compilation which the secretariat has been asked to undertake with the aid of delegations.

Functioning of the Arrangement

16. The International Dairy Products Council is required to review the functioning of the Arrangement at each of its regular sessions. This review was particularly thorough in September 1982, for in December that year the Arrangement was coming to the end of its first three years of activity, three years being the period on the basis of which the Arrangement operates. The functioning of the Arrangement during this first period of its operation was found to have been satisfactory; mention was made of its contribution to better knowledge of the market and to the strengthening of international co-operation, as well as of the importance of the dynamic nature of its operation.

17. It should nevertheless be pointed out that in 1980 and 1981 the situation of the international market for dairy products was relatively satisfactory. However, the considerably increased world production of dairy products which, in the absence of parallel growth in consumption, had the effect of increasing stocks and weakening market prices, then brought on a situation which, for the first time, really put the mechanism of the Arrangement to the test. The discussions which took place at the sessions, and the holding of the special meeting, showed the spirit of co-operation of the participants and the importance of their responsible attitude and of strict observance of the Arrangement's provisions was frequently emphasized. The situation in the dairy products sector is serious, and its future development will depend on many factors, but the mechanisms provided by the Arrangement and the pursuit of its objectives can usefully contribute towards a multilateral solution of the problems that arise.

18. It was pointed out that satisfactory functioning of the Arrangement requires a knowledge of the market which can only be assured by compliance with the provisions of the Arrangement relating to information. In this context it must be noted that, according to the rules of procedure, information must be communicated regularly by the participants in response to questionnaires; such information, supplemented orally at sessions, provides the basis for a note drawn up half-yearly by the secretariat. Once a year, at least, this note is revised in the light of the discussions and given general distribution. Three reports on the world market for dairy products have already been circulated and the fourth will appear in the coming weeks.

19. The importance of co-operation between the participants was emphasized. Such co-operation would be strengthened by increased participation in the Arrangement itself and continued strict application of its provisions. It would be desirable for the participants in the Arrangement to include the main trading partners of the sector and for a greater number of developing countries to be represented.

20. As regards participation by some of the main trading partners, it must be remembered that the Protocols, which form an integral part of the Arrangement, include specific provisions relating, inter alia, to the observance of minimum f.o.b. prices. But although Article VIII, paragraph 1(b) of the Arrangement provides that any government accepting the Arrangement may at the time of acceptance make a reservation with regard to its acceptance of any of the Protocols, such a reservation is subject to the approval of the participants. No reservation has yet been approved by the International Dairy Products Council, whose decisions are taken by consensus; consequently, some countries have not signed the Arrangement.

21. Such is the position of Canada, which drew attention during the negotiations to the problem represented by observance of the fixed minimum price for skimmed milk powder, for the competitiveness of its exports to certain destinations. In spite of the efforts made, no solution has yet been found and it is as an observer that Canada is taking part in the work relating to the Arrangement.

22. A number of the provisions of the Arrangement are of particular interest to developing countries. As regards food aid, Article V of the Arrangement contains provisions which make it possible for beneficiaries of such aid to state their requirements and desiderata precisely, thus avoiding harmful interference with normal patterns of production, consumption and international trade and facilitating better distribution of resources. In this context, information on food aid sales is extremely important. In addition, the Arrangement provides that if the International Dairy Products Council is called upon to consider measures to improve the world market situation, due account shall be taken of the situation of developing countries and of the special and more favourable treatment to be provided for them. It should be noted that donated exports to developing countries and exports destined for relief purposes or food-related development purposes or welfare purposes in developing countries, are not subject to the minimum prices fixed in the Protocols annexed to the Arrangement. Moreover, the Protocols contain a guarantee of supply for importing developing countries. As regards information requested from participants, the Arrangement provides that developing countries shall furnish the information available to them and includes the possibility of technical assistance.

23. The International Dairy Products Council has agreed to invite all interested countries to examine or continue to examine with it all obstacles to their acceptance of the Arrangement.

24. As agreed by the International Dairy Products Council, the above report is presented by its Chairman under his own responsibility.