

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

DPC/19
5 June 1985

Special Distribution

International Dairy Arrangement

INTERNATIONAL DAIRY PRODUCTS COUNCIL

TWELFTH SESSION

Report

Chairman: Mr. J. Viganó

1. The International Dairy Products Council held its twelfth session on 27 and 28 March 1985.
2. The Council adopted the following agenda:
 - A. Election of Chairman and Vice-Chairman;
 - B. Admission of observers under Rules 11 and 14 of the Rules of Procedure;
 - C. Review of the functioning of the Arrangement;
 - reports of the sessions of the Committees of the Protocols
 - replies to questionnaires 4 and 5
 - D. Evaluation of the situation in, and outlook for, the world market for dairy products;
 - dairy policies
 - transactions other than normal commercial transactions
 - products not covered by the Protocols
 - general situation and outlook
 - E. Arrangement of a special meeting to examine the adequacy and effectiveness of the Arrangement, and of the obstacles to acceptance which contracting parties may have faced (L/5756);
 - F. Review of the situation in the context of the Resolution adopted on 16 November 1984, including a proposal by New Zealand to rescind said Resolution.

A. Election of Chairman and Vice-Chairman

3. In accordance with Rule 2 of the Rules of Procedure, the Council elected Mr. J. Viganó (Argentina) as Chairman for 1985/86 and Mr. G.A. Stünzi (Switzerland) as Vice-Chairman. Appreciation was expressed to Mr. D.J. Greenfield (New Zealand) and Mr. L. Bartha (Hungary) who had held the offices in 1984/85 of Chairman and Vice-Chairman respectively.

B. Admission of Observers under Rules 11 and 14 of the Rules of Procedure

4. The Council invited the representation of Mexico and Panama in the capacity of observers, to follow the proceedings of the session, 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. He had accordingly invited these organizations to participate in the present session as observers.

C. Review of the functioning of the Arrangement

Reports of the twentieth and twenty-first sessions of the Committees of the Protocols

6. In accordance with Article IV:1(b), the Council reviewed the functioning of the Arrangement. For this review, the Council had before it the reports of the twentieth sessions of the Committee of the Protocol Regarding Certain Milk Powders (DPC/P/32), the Committee of the Protocol Regarding Milk Fat (DPC/F/31), and the Committee of the Protocol Regarding Certain Cheeses (DPC/C/31). Furthermore, the Chairman of the Committees presented an oral report of the twenty-first sessions of the Committees, held on 25 and 26 March 1985.

7. Each of the Committees had elected Mr. G.A. Stünzi (Switzerland) as the Chairman for 1985/86, in accordance with Rule 15 of the Rules of Procedure. The Committees did not elect a Vice-Chairman.

8. Having examined the replies to questionnaires and summary tables, the Committees had considered the market situation for the products covered by each of the Protocols. The Committee of the Protocol Regarding Milk Fat noted that the Council was going to examine the situation in the context of the Resolution adopted on 16 November 1984 (DPC/13). The production of butter had decreased in 1984, after having increased in 1983. Production had declined, in particular in the European Communities, the United States and Australia. It had increased in New Zealand, however, and was reported to have increased in the USSR although at a slower rate than in 1983. In 1985, total production was expected to decrease. After slowing down in 1983, the volume of international trade in butter appeared to have increased in 1984, with differing trends for different exporters. Imports of butter and anhydrous milk fat by developing countries, including those by the OPEC countries, appeared to have declined or remained stationary in 1984.

Imports into the USSR were reported to have increased as compared with 1983. World consumption of butter seemed to have increased in 1984 and was expected to continue to grow in 1985. World stocks of butter at the end of 1984 were significantly greater than at the beginning of the year. The level of these stocks and the problems caused by their disposal were affecting the international market situation in a most disturbing manner. International prices for butter weakened throughout 1984 and remained depressed in early 1985. As regards anhydrous milk fat, the Community and New Zealand had recorded an increase in their production and exports in 1984. The increase in Community exports was largely due to increased deliveries as food aid. In order to make up arrears, Community deliveries of butter oil were greater in 1984 than in 1983. International prices suffered the consequences of the butter market situation.

9. The Committee of the Protocol Regarding Certain Milk Powders noted that overall production of skimmed milk powder had fallen in 1984 after showing a rise in 1983. Production might decline further in 1985. The slight recovery in international trade recorded in 1983 appeared to have been accentuated in 1984, in particular as a result of increased deliveries as food aid. A further increase in the consumption of skimmed milk powder was reported for 1984. This development was mainly due to the increase in consumption in the Community, where programmes aiming at such an increase were in force and where animal feed constituted the main internal outlet. Total stocks at the end of 1984, although still large, were nevertheless smaller than at the beginning of the year. Prices seemed to have remained relatively stationary in the fourth quarter of 1984, fluctuating between US\$620 and US\$720 per ton f.o.b. During the first quarter of 1985, they were within a range of US\$600 to US\$650 per ton f.o.b. The prices at the lower end of this range were those of skimmed milk powder for animal feed. The Committee noted that Switzerland and New Zealand had made recourse to the provisions of Article 3, paragraph 5 of the Protocol. Production and exports of whole milk powder recovered in 1984, but international prices weakened in 1984, fluctuating between US\$950 and US\$1,000 per ton f.o.b. towards the end of the year. As a result of the appreciation of the United States dollar, prices continued to fall during the first quarter of 1985, to a range between US\$860 and US\$950 per ton f.o.b.

10. The Committee of the Protocol Regarding Certain Cheeses noted that in 1984 overall production of cheese appeared to have increased at a slower rate than in 1983, and only a slight increase in 1985 was expected. Exports of cheese, which had increased only marginally in 1983, had risen faster in 1984. Total stocks at the end of 1984 were estimated to have fallen from their level at the beginning of the year. Prices of Cheddar cheese, which were within a range of US\$1,200 to 1,250 per ton f.o.b. at the end of 1984, varied between US\$1,150 and 1,200 per ton f.o.b. towards the end of the first quarter of 1985, the fall at the beginning of the year being due to the appreciation of the United States dollar. The Committee took note of the notifications by South Africa and New Zealand concerning recourse by these participants to the provisions of Article 7, paragraph 2 of the Protocol.

11. The Committees intended to hold their next regular meetings from 17 to 19 June 1985.

12. The Council took note of the reports from the Committees of the Protocols.

Replies to questionnaires 4 and 5

13. The Chairman recalled that questionnaire 4 concerned information on products not covered by the Protocols. According to Rule 23 of the Rules of Procedure, annual data should be furnished two and a half months, at the latest, after the end of the period under review. On 15 February 1985, the secretariat had circulated a reminder requesting that relevant information be submitted by 15 March 1985. At the time of the meeting, replies had been received from the following countries: Argentina, Australia, Austria, Bulgaria, Canada, Finland, Japan, New Zealand, Norway, South Africa, Sweden and Switzerland.

14. The representative of Uruguay apologized that the requested information for his country had not been submitted in time. He would, however, see to it that the relevant information was furnished shortly. The representative of the European Communities in his turn, presented his excuses for not having been able to meet the deadline for submitting the information. He affirmed, however, that the Community reply to questionnaire 4 had been prepared and would soon be received by the secretariat.

15. The Council took note of the information submitted and of the comments made.

Replies to questionnaire 5

16. The Chairman recalled that according to Rule 29 of the Rules of Procedure, participants should submit new information whenever necessary in order to keep up to date, the inventory of all measures affecting trade in dairy products, including commitments resulting from bilateral, plurilateral and multilateral negotiations.

17. Since the eleventh session of the Council held in September 1984, relevant information had been received from Finland, South Africa, Sweden and Uruguay. The secretariat had circulated a document (DPC/INV/2/Rev.5), dated 25 March 1985, showing the content of the inventory based on replies to questionnaire 5.

18. The representative of the European Communities said that further information related to its dairy policy would be submitted as soon as the relevant decision for the coming season had been taken.

19. The Chairman made an appeal to participants to make an effort to see to it that missing information was submitted without further delay. According to Rule 23 of the Rules of Procedure, replies to questionnaire 5 should be submitted within four months following the acceptance of the Arrangement, and any changes in domestic policies and trade measures affecting trade in dairy products should be communicated in June of each year.

20. The Council took note of the information submitted and of the comments made.

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

21. The Council had before it two documents prepared by the secretariat for the discussion of this item: the status report on the world market for dairy products (DPC/W/43), and food aid operations relating to dairy products (DPC/W/44). The Chairman suggested that information contained in recent replies to questionnaires 4 and 5 could also be considered under this item. He furthermore suggested that the Council should follow its traditional procedure for discussing this subject: i.e. dairy policies; transactions other than normal commercial transactions; products not covered by the Protocols; and general situation and outlook. The Council was in agreement on this procedure.

22. The representative of the European Communities suggested that the last sentence of paragraph (b) under the chapter 'Trade' (DPC/W/43, page 7) should refer to sales of fresh butter at less than the minimum price by other participants. He also inquired about some information given for Australia and New Zealand in the documentation before the Council. In reply to this, the representative of New Zealand explained that in his country, yields per cow were closely linked to the amount of rain and grass growth. The year 1983 had been particularly good, with more favourable conditions than those in 1984, and milk yields were lower in the latter year, although the final result seemed to be better than had been expected at one stage. With respect to information on stocks of skimmed milk powder, he was not in a position at present to provide statistics in the necessary detail. The New Zealand statistical services had, however, been asked to single out skimmed milk powder for stockfeed and establish a new statistical sub-item. He therefore expected to be in a position to provide some detailed statistics in the future. The representative of Australia confirmed the information about stocks included in the documentation before the Council and the Committees, and he said that information given elsewhere (e.g. Food News) seemed to be incorrect. Australian stocks of skimmed milk powder at the end of December 1984 amounted to 39,000 tons.

Dairy Policies

23. The representative of Australia informed the Council about new Federal arrangements for the Australian dairy industry which were to come into effect from 1 July 1985. A new market support mechanism would be introduced whereby support levels would be maintained at current levels for the first year and subsequently adjusted taking account of changes in the level of production. The new market support mechanism would be financed by a levy of 1.5 cents per litre on milk production and existing levies on butter and cheese, which however were to be phased out. Present levies on other dairy products would be abolished. The system of underwriting for exports would be maintained, but pooling of export returns and returns from domestic sales could be abolished.

24. The representative of Finland reported that the measures notably a two-price system for milk applied to curtail production had resulted in increased discipline and would hopefully bring about a reduction of excess production. The representative of Switzerland reported that milk quotas had been exceeded by 1.6 per cent, measures were being taken to limit certain productions. The representative of South Africa reported that a quota system had been introduced for industrial milk as from 1 January 1985.

25. The observer of Canada reported on recent changes in national dairy policies. Late January 1985, the Canadian authorities had adjusted the national market share quota downwards by 1 per cent to a total of 47.3 million hectolitres, in order to adjust production to internal consumption. At the same time, the over-the-quota levy had been raised from Can\$34.38/hl. to Can\$37.70/hl., taking into account a weakening in world market prices. Individual provinces would be able to increase the over-the-quota levy rate and/or reduce the quota to 1 per cent or more. Finally, the Dairy Commission was organizing a domestic butter sale of 13 million kilogrammes of bulk butter providing for a discount of 30 Can.cents/kg. In 1984, a total of 9.5 million kilogrammes of butter had been disposed of through a similar action, resulting in a total net increase in national butter consumption of 1 million kilogrammes.

26. The Council took note of the information provided and the comments made.

Transactions other than normal commercial transactions

27. The Chairman recalled that according to Article V of the Arrangement, participants had taken on some commitment to furnish dairy products to developing countries as food aid. This should be done in co-operation with the FAO, and transactions should be effected in accordance with the FAO principles of surplus disposal. Participants had agreed to notify in advance each year some details on planned transactions of this kind. Recognizing the desirability of harmonizing their efforts in this field, it had been agreed to have an exchange of views on these matters in the Council.

28. The representative of Japan reported that his Government had provided skimmed milk powder and whole milk powder purchased from Australia and New Zealand for food aid in 1984. A total of 10 billion yens had been spent on this aid in 1984, which included a donation to Niger of 700 tons of powder of New Zealand origin and a donation to Tanzania of 400 tons of powder of Australian origin.

29. In relation to the information provided in DPC/W/44, the following revised and complementary information was provided for the European Communities. Food-aid deliveries of anhydrous milk fat October-December 1983: 5,000 tons; 1984: 6,000 tons and totals for 1983: 17,000 tons; 1984: 49,000 tons, and food aid in relation to total Community exports were for 1983: 15.3 per cent and for 1984: 41.2 per cent.

Products not covered by the Protocols

30. The Chairman referred to the relevant chapter of DPC/W/43 and invited comments on that. He also mentioned that the secretariat would appreciate some guidance as to how this chapter could be adapted more closely to the need for such information.

31. Several representatives provided up-to-date information on milk production. In the Community, milk production and deliveries were 2-2.5 per cent lower in 1984 than in 1983. In Switzerland, deliveries of milk had reached 31.1 million quintals in 1984, which meant a decline of 1.6 per cent from the previous year. In Sweden, production of milk had reached 3,796,000 tons in 1984, 2.2 per cent above the level of the previous year, and deliveries to dairies showed a similar increase.

Estimates for 1985 indicated a decline in milk deliveries. In Norway, milk production was approximately the same in 1984 as in 1983, 1,857.25 million litres. Also in Finland, milk production was of nearly the same level in 1984 as in the preceding year, amounting to 2,900 million litres. Deliveries to dairies showed a slight decline and this was expected to continue into 1985. For the latter year, milk deliveries were expected to be in the range of 2,370-2,900 million litres, which meant a reduction of between 1 and 2 per cent. In Poland, milk production reached 11,494 million litres in 1985, in spite of a decline in cow numbers.

32. Good rainfalls had improved the feed situation in South Africa, alleviating cash flow problems for farmers. Milk deliveries in January 1985 were 10 per cent lower than in January 1984, partly due to weather conditions and partly to the introduction of a quota system for industrial milk. Production for 1984/85 in New Zealand was expected to be very good as grazing conditions had been favourable. In Australia, milk production had been up by 2.5 per cent in the last quarter of 1984, compared with the last quarter 1983. Grazing conditions had been good and milk production for the 1984/85 season was estimated to reach 6,000 million litres, marginally up on the 1983/84 level.

33. In Japan, milk production was unchanged from 1983/84 to 1984/85, but the consumption of liquid fresh milk had increased by 3.5 per cent due to hot summer weather in 1984.

34. The representative of the European Communities reported that the Community production of condensed milk had increased by 1.1 per cent from 1983 to 1984, while that of casein had increased by 6.2 per cent. The representative of Argentina said that in 1984, Argentinian casein production had decreased slightly compared to 1983, when production had been higher than previously. The lower production in 1984 resulted in a decline in exports.

General situation and outlook

35. The representative for the European Communities reported on recent forecasts made concerning dairy production for 1985 in the Community, stressing the uncertainty always present when making such forecasts. The number of cows was expected to decline by 1.6 per cent and a decline in milk production of 1.1 per cent. Milk deliveries which had declined by 2.4 per cent in 1984 would continue to fall by another 2.2 per cent. Butter production which had fallen by 8 per cent in 1984 would continue to fall by another 4.5 per cent in 1985. The consumption of butter was expected to remain at its present level, but could show a slight increase. Cheese production was expected to increase by 1.7 per cent in 1985, and consumption by 1.4 per cent. Skimmed milk powder production was forecasted to diminish by 5 per cent while an increase was expected in whole milk powder production of 1.4 per cent, which would nevertheless mean an increase of 25 per cent compared to 1983. With an average level of 100 million tons of milk for the Community as a whole, it should be understood that adverse weather conditions could provide significant changes in production figures for the various products.

36. The observer of the Economic Commission for Europe reported on recent developments in Eastern Europe: At the beginning of 1985 cow numbers in Eastern Europe were about 1 per cent lower than a year earlier. In the USSR in February 1985, the cow herd had amounted to 29.5 million against 29.7 million in February 1984. Information available for milk production in Eastern Europe as a whole (excluding USSR) implied that overall production went up about 4 to 5 per cent in 1984. This increase was mainly due to a further increase in Polish milk deliveries. In the USSR, milk output in 1984 was 1.2 per cent higher than in 1983. As already mentioned in September 1984, this slowdown in the growth rate of USSR milk production was mainly due to the stagnation of dairy herds and to a deterioration of the feeding situation. The information for the first two months of 1985 showed an increase in milk production of 0.5 per cent compared to the same period of last year. For 1984, butter production in Eastern Europe was estimated to have increased by about 4 per cent, and in the USSR by 3 per cent. During the first two months of 1985 butter output had decreased by 2.5 per cent. He estimated USSR butter imports to have reached approximately 200,000 tons for 1984. In reply to a question about fat consumption in the USSR, he said that butter consumption was about 4.5 to 5 kg./capita and for other fats around 8 kg./capita, with no major fluctuations from one year to another.

37. The Council took note of the information provided and comments made under this item.

E. Arrangement of a special meeting to examine the adequacy and effectiveness of the Arrangement, and of the obstacles to acceptance which contracting parties may have faced

38. Referring to an action taken by the CONTRACTING PARTIES on 30 November 1984, the Chairman suggested that a special meeting be arranged, as called for, on 14 May 1985. This would be a special meeting called by the Chairman in terms of Article VII:1(b) of the Arrangement. With regard to the participation in that meeting, he suggested that the meeting should be open to all participants of the Arrangement and contracting parties not signatories to the Arrangement. The participation of the latter category would be subject to the provisions of Rule 10 of the Rules of Procedure. He mentioned that the Action of 30 November 1984 taken by the CONTRACTING PARTIES explicitly stressed that non-contracting parties should be provided with an opportunity to express their views. He advanced the idea that such parties might be invited to submit their views in writing to the secretariat in advance of the meeting.

39. The Council accordingly agreed to hold a special meeting on 14 May 1985 (date subject to confirmation) in order to examine the adequacy and effectiveness of the International Dairy Arrangement, and the obstacles to acceptance which contracting parties may have faced, providing an opportunity to non-signatory contracting parties to express their views in the discussion. It also agreed that the meeting should be open to all contracting parties.

F. Review of the situation in the context of the Resolution adopted on 16 November 1984, including a proposal by New Zealand to rescind said Resolution

40. The Chairman recalled that when closing the special session of the Council on 8 March 1985, it was noted that the Council had been unable to reach a decision on the proposal by New Zealand to rescind the Resolution of 16 November 1984, and it had been agreed to revert to the matter at the present meeting of the Council. At the same time, the Council had urged the Committees of the Protocols to pursue further their considerations of prices and other current problems facing the Arrangement.

41. The Chairman of the Committees of the Protocols was invited to report on the discussions held in the Committees. The Committees had noted that prices for dairy products continued to be influenced, in particular, by the level of stocks and currency fluctuations. It was pointed out by some participants that the withdrawal of the United States from the Arrangement was causing uncertainty on the international market for dairy products. It was recalled, however, that when the United States had notified its decision to withdraw from the Arrangement, it had promised not to disrupt international trade and the prices of dairy products by pursuing its commercial interests. The market situation, and in particular the trend of prices for butter, anhydrous milk fat and whole milk powder were causing much concern. World import demand was unlikely to increase significantly and it seemed evident that in spite of the measures taken, available supplies would again be greater than real demand in 1985.

42. The Committees had held a joint meeting on 26 and 27 March 1985 to examine the minimum prices for the products covered by each of the Protocols, on the basis of the criteria fixed by the Arrangement. Several positive elements had emerged during this examination. Some participants were prepared to accept an adjustment of the minimum prices. In fixing these prices, account should be taken of various factors, including participants' production costs, the level of producers' income and the need to ensure acceptable prices to consumers. In making the adjustments, participants' interests should be taken into consideration. In the opinion of some participants, a reduction of the minimum prices would not necessarily result in an increase of total sales on the international market. Some delegations considered that an automatic adjustment of minimum prices according to the exchange rate fluctuations of the United States dollar would be useful and should be made without delay; such an adjustment would be made without prejudice to the criteria set out in Article 3, paragraphs 3(b) of each of the Protocols. The question of disposal of stocks of old butter (over eighteen months of age) was raised. The possibility of derogating from the provisions of Article 3, paragraphs 1 to 4 of the Protocol Regarding Milk Fat for sales of old butter and the conditions which could be attached to such a derogation were discussed. Recognizing the difficult situation in the market for dairy products, in particular as regards whole milk powder and butter, participants took the view that closer co-operation was more necessary than ever for solution of the present problems relating to production, trade, stocks and prices of the products concerned.

43. The three Committees of the Protocols had held a joint special meeting on 28 March 1985 to continue to examine prices and other problems currently encountered by the Arrangement. Proposals were made for modifying the minimum prices and for automatic adjustment of those prices in line with exchange-rate variations of the United States dollar. At the same time, suggestions were made regarding possible disposal of old butter; some of those suggestions were based on the provisions of Article 7:1 of the Protocol Regarding Milk Fat. In this context, reference was made to measures that could be taken by the participants and by the Committees to safeguard the trade interests of other participants. Delegations indicated that they would communicate those proposals to their authorities, and that time would be needed to examine them in detail. The Committees had decided to hold a joint special meeting on 17 and, if necessary, 18 April 1985 with a view to finding a solution.

44. The representative of the European Communities stressed that the Resolution had turned out to be discriminatory to the Community, and he was strongly in favour of its abrogation. He recognized, however, that this was part of a package and would agree to pursue the discussions further in the Committees. It was, in his view, a justified action to modify the minimum prices in the Arrangement, and in so doing, to take the realities of the market into account. With respect to the problem of aged butter, he was ready to consider further various types of solutions. One solution could be not to consider aged butter as butter in terms of the Arrangement, as it was a different product. The solution of waiver, preferably under Article 7 of the Protocol and as a temporary solution, also deserved further consideration. He doubted that some type of automatic derogation of the type provided for in Article 7:2 of the Protocol Regarding Certain Cheeses would be a good approach. This would involve an amendment to the Arrangement and would therefore take too much time. It would anyhow be useful to have some language on paper and continue the discussions on that basis.

45. The representative of New Zealand noted that there was a rather wide distance between the views on modifying the minimum prices of the Arrangement. His delegation had strong reservations on a lowering of the minimum prices, but was nevertheless, in a spirit of compromise, willing to consider a modest lowering of the prices, as others seemed to see this as a condition for rescinding the Resolution. He could not agree that the monetary situation justified reductions of the order suggested by Austria and the Community; and he stressed that whenever modifying the level of the minimum prices, the provisions of Article 3:3(b) of the Protocol would have to be closely observed. As to the problem of aged butter, he thought it would be useful to have some language on the table, but he had major reservations as to the idea of providing for an automatic derogation of the type provided for in Article 7:2 of the Protocol Regarding Certain Cheeses. In view of the urgent need to rescind the Resolution and of the aim to enable and oblige all participants to respect the minimum prices of the Arrangement, he was willing to continue the talks both on prices and on a solution for aged butter.

46. The representative of Finland, speaking on behalf of the Nordic countries, expressed the view that it was still necessary to take some time for further reflection. He reiterated the doubts about the feasibility of the Resolution expressed by these delegations already at the time of its adoption; they had at that time accepted to go along in a spirit of compromise. An immediate closing of the window might create more problems than it would solve and notably create serious problems for some participants. The Nordic countries were opposed to a rescinding of the Resolution as long as there was no agreement as to the modification of minimum prices for butter. They saw difficulties with the observance of a minimum price for butter of US\$1,200 per ton, and the range of arguments presented for a modification of the minimum price for butter clearly explained their situation. Neither was there yet any solution in sight to the problem of aged butter, and as long as the problems of prices and large stocks of aged butter remained unsolved, it would be unrealistic to rescind the Resolution. He agreed, however, to pursue the discussions in the Committees and consider any proposals in more detail.

47. The representative of Austria shared the views expressed by Finland and said that it was impossible for his delegation at present to agree to the abrogation of the Resolution.

48. The representatives of Argentina and Uruguay strongly supported an early abrogation of the Resolution, but had strong reservations on simultaneous lowering of the minimum prices. They had taken note of the proposals made with respect to prices, and of the suggestions advanced concerning aged butter and would convey these to their respective authorities and seek instructions for further talks.

49. The Council took note of the oral report by the Chairman of the Committees of the Protocols on this point and of the comments made.

Date of the next regular meeting of the Council

50. The Chairman recalled an earlier decision to hold the next regular meeting, the thirteenth session, on 26 and 27 September 1985 (tentative date).