

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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Limited Distribution

## INTERNATIONAL DAIRY PRODUCTS COUNCIL

### Report to the CONTRACTING PARTIES

The present report by the Chairman of the International Dairy Products Council is submitted in accordance with the Decision of 28 November 1979 (BISD 26S/201, paragraph 4), and in conformity with an agreement reached in the International Dairy Products Council at its September meeting 1985 (L/5872, paragraph 9). The report provides a resumé of the activities of the Council and its Committees since the Fortieth Session of the CONTRACTING PARTIES.

1. The International Dairy Arrangement came into operation on 1 January 1980 and was recently extended until 31 December 1988, in conformity with Article VIII, paragraph 4. As of 1 November 1985, the Arrangement had the following participants: Argentina, Australia, Bulgaria, Egypt, the European Economic Community, Finland, Hungary, Japan, New Zealand, Norway, Poland, Romania, South Africa, Sweden, Switzerland and Uruguay. Some other countries and international organizations have been represented at meetings by observers. The United States was participating in the Arrangement until 12 February 1985 and Austria until 9 June 1985.
2. The International Dairy Council elected Mr. J.A. Viganó (Argentina) as Chairman for 1985 and Mr. G.A. Stünzi (Switzerland) as Vice-Chairman. Mr. Stünzi was also elected as Chairman of the Committees of the Protocols.
3. The Council held two regular sessions in 1985, one in March and one in September. Furthermore, it held four special sessions to consider matters related to the Resolution of 16 November 1984 and a special session in May 1985 to examine the adequacy and effectiveness of the Arrangement.
4. At its regular sessions, the Council reviewed the functioning of the Arrangement on the basis of reports from the Committees of the Protocols and on the basis of documentation established by the secretariat. It was noted that prices, as expressed in US dollars, for dairy products had continued to be depressed during the early part of 1985, mainly as a result of heavy stocks and currency fluctuations. Butter and whole milk powder had occasionally been sold at prices below

the minimum export prices stipulated in accordance with the provisions of the International Dairy Arrangement. The 1985 September review of the market situation, for dairy products undertaken by the Committees of the Protocols and the Council revealed a certain amount of optimism and it was expected that in the case of some dairy products, such as milk powders and cheese, the situation would improve slightly in 1985 and 1986. However, in the case of butter, heavy surplus stocks continued to have a depressive effect on the market and the situation remained one of concern. The Council expressed its concern with the serious situation in the butter market and stressed that close co-operation was absolutely necessary for solution of the current problems relating to production, trade, stocks and prices of butter and milk fat. The Committee of the Protocol Regarding Milk Fat was invited to consider at its next session possible steps to be taken to resolve the problems facing butter trade.

5. When reviewing the levels of minimum export prices for the products covered by the Protocols, it was noted that the minimum export prices for whole milk powder, butter and anhydrous milk fat had been reduced recently and that market prices for several products had shown some recovery. Production costs had increased as well, and in the opinion of some participants, an increase in the minimum export prices might be justified. However, in view of the uncertainties affecting the market situation no modifications in the minimum export prices were made following the September review. With regard to adjustment of minimum prices following fluctuations in the exchange rate of the US dollar, consideration of that question had been commenced by the Committees, but no conclusions had been reached since the problems caused by exchange rate fluctuations in general were currently being discussed in other fora. It was felt that a system for automatically adjusting minimum prices in accordance with fluctuations in the exchange rate of the United States dollar would be difficult to apply.

6. The Council took note of a proposal by Australia suggesting that participants should report more fully on their measures applied to implement obligations incurred under the Arrangement, notably those related to the minimum price provisions. It also took note of comments made relating to that proposal. It was agreed to retain the question on the agenda of the Council and participants were invited to submit concrete proposals in writing on the matter well in time before the next meeting of the Council.

7. Following a series of special meetings of the Council and the Committees from December 1984 to May 1985 some agreements were reached concerning new minimum export prices for some products and the disposal of old butter by derogations from some of the provisions of the Protocol Regarding Milk Fat. On 31 May 1985, the Committee of the Protocol Regarding Certain Milk Powders had decided to lower the minimum export price for whole milk powder from US\$950 to US\$830 per ton.<sup>1</sup> Simultaneously, the Committee of the Protocol Regarding Milk Fat had decided to lower the minimum prices for anhydrous milk fat from US\$1,440 to US\$1,200 per ton and for butter from US\$1,200 to US\$1,000 per ton.<sup>2</sup>

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<sup>1</sup> See Annex II

<sup>2</sup> See Annex III

The new minimum export prices became effective as of 5 June 1985. It has also been agreed to authorize, under certain conditions, participants holding exceptionally large stocks of old butter to sell such butter at prices lower than the agreed minimum export prices.<sup>1</sup> Subsequently the Council rescinded, effective 5 June 1985, the Resolution of 16 November 1984. This decision was made on the understanding that deliveries of butter and anhydrous milk fat under sales notified prior to 1 June 1985, according to the Resolution of 16 November 1984, should be completed by 30 June 1986, at the latest; and that no further sales could take place under said Resolution.<sup>2</sup>

8. In pursuance of the action taken by the CONTRACTING PARTIES on 30 November 1984 (BISD, 31S/13), the Council at a special meeting on 15 May 1985 examined the adequacy and effectiveness of the Arrangement and the obstacles to acceptance which contracting parties may have faced.

9. With regard to the adequacy and effectiveness of the Arrangement, the opinion was expressed that while the Arrangement had worked fairly well until 1984, it had not been adequate to deal with the difficult market situation for dairy products which had occurred in that year and which had persisted since. That situation was characterized by distorted markets, the presence of large surplus stocks (notably of butter), stagnant consumption, the persistence of protectionist policies and the application of export assistance by some exporters. It was felt that the objectives of the Arrangement had been only partly met. Although, there had been some increase in world trade in dairy products, no substantial progress had been made towards a greater liberalization of world trade in such products. In spite of the shortcomings, the Arrangement was nevertheless considered to be a positive instrument and had proved to be useful in several respects. In the discussion of obstacles to acceptance it was suggested that renewed efforts might be made in order to bring more countries into the Arrangement. A note on the meeting was circulated to contracting parties on 30 May 1985 (L/5811).

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<sup>1</sup> See Annex IV

<sup>2</sup> See Annex I

ANNEX I

INTERNATIONAL DAIRY PRODUCTS COUNCIL

Decision of 31 May 1985

The International Dairy Products Council at a special meeting held on 31 May 1985:

Noted that the Committee of the Protocol Regarding Milk Fat had decided to modify the levels of the minimum prices for butter and anhydrous milk fat (DPC/F/34) and; considered that in light of the new levels of these minimum prices, it should no longer be necessary to maintain the Resolution of 16 November 1984;

Noted that the Committees of the Protocols had agreed to study as soon as possible the question of adjustment of minimum prices according to fluctuations in the exchange rate of the United States dollar; any such adjustment would be made without prejudice for the other criteria set out in Article 3, paragraph 3(b) of each of the Protocols. To this end, the technical modalities of such adjustment would be discussed at the next regular meetings of the Committees;

Noted that an agreement had been reached in the Committee of the Protocol Regarding Milk Fat with regard to sales of old butter by derogation from the provisions of paragraphs 1 to 4 of Article 3, and pursuant to Article 7:1 of said Protocol (DPC/F/35);

Decided to rescind with effect as of 5 June 1985, the Resolution of 16 November 1984 (DPC/13).

The above decision was made on the understanding that deliveries of butter and anhydrous milk fat under sales notified prior to 1 June 1985, according to the Resolution of 16 November 1984, shall be completed by 30 June 1986, at the latest; and that no further sales other than those notified prior to 1 June 1985 could take place under said Resolution.

ANNEX II

COMMITTEE OF THE PROTOCOL REGARDING CERTAIN MILK POWDERS

Decision of 31 May 1985

The Committee of the Protocol Regarding Certain Milk Powders has in accordance with Article 3:3 of the Protocol Regarding Certain Milk Powders, decided to adjust the level of the minimum price specified in that Article for whole milk powder to US\$830 per metric ton.

The schedule of price differentials according to milk fat content set forth in Annex I b to the Protocol Regarding Certain Milk Powders has consequently been modified. It is annexed to the Procès-Verbal deposited with the Director-General, certifying the entry into force of the new minimum price.

This decision shall take effect at noon on 5 June 1985.

ANNEX III

COMMITTEE OF THE PROTOCOL REGARDING MILK FAT

Decision of 31 May 1985

The Committee of the Protocol Regarding Milk Fat has in accordance with Article 3:3 of the Protocol Regarding Milk Fat, decided to adjust the levels of the minimum prices specified in that Article to US\$1,200 per metric ton for anhydrous milk fat and US\$1,000 per metric ton for butter.

The schedule of price differentials according to milk fat content set forth in Annex II b to the Protocol Regarding Milk Fat has consequently been modified. It is annexed to the Procès-Verbal deposited with the Director-General, certifying the entry into force of the new minimum prices.

This decision shall take effect at noon on 5 June 1985.

ANNEX IV

COMMITTEE OF THE PROTOCOL REGARDING MILK FAT

Derogation Pursuant to Article 7:1

Decision Adopted on 31 May 1985

Pursuant to Article 7:1, the Committee of the Protocol Regarding Milk Fat decides that when any participant holds exceptionally large stocks of butter aged at least 18 months for which no alternative disposal outlets are immediately available and for which export sales at a price not less than the minimum price cannot be made, the participant is authorized to sell this butter aged at least 18 months when it is removed from stocks, and in any event is manufactured before 1 April 1986 and/or fats manufactured from such butter, at prices inferior to the prices referred to in Article 3 of said Protocol, under the following conditions:

1. The participant shall notify, in advance, and as soon as possible to the Chairman and the secretariat of the Committee, the intention to export these products, specifying all the details of the proposed sale and, especially, the quantities, the prices, the country of destination, the delivery period. In addition, it will immediately notify all subsequent alterations which may be introduced to that sale. The secretariat shall immediately advise all participants of all relevant details.
2. The participant who carries out such exports shall take all possible steps to ensure that the products concerned are finally consumed in the country of destination.
- 3.(a) The minimum quantity contracted for each sale to a single country of destination under this derogation may not be less than:  
100,000 tonnes of butter or  
50,000 tonnes of fat manufactured  
from such butter with the addition of a tracer unless the inclusion of a tracer is explicitly excluded by the importing country.
- (b) The delivery period from the date of sale may not exceed:
  - 15 months for sales up to 150,000 tonnes of butter
  - 18 months for sales in excess of 150,000 tonnes of butter
  - 15 months for sales of milk fat.

4. If, as a result of sales made under this derogation, other participants who have regularly supplied to the destinations concerned encounter difficulties regarding the maintenance of their traditional volume of butter sales to those destinations, the participant who has carried out such sales under this derogation shall open consultations with the other above mentioned participants at their request. The purpose of these consultations shall be to define the measures to be taken to enable the above mentioned participants to realize their traditional volume of sales.

5. The Committee shall closely follow the developments related to this derogation, in particular the realization of traditional volume of sales on the markets where sales have been made under this derogation, by participants who are regular suppliers to those destinations. Participants having recourse to this derogation shall regularly inform the Committee on the evolution of their butter stocks. A special meeting of the Committee shall be convened at any time in accordance with Article IV:6 of the Arrangement at the request of any participant.

6. This derogation shall remain in force up to 31 December 1986 unless earlier repealed.