

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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International Dairy Arrangement

INTERNATIONAL DAIRY PRODUCTS COUNCIL

THIRTEENTH SESSION

Report

Chairman: Mr. J.A. Viganó

1. The International Dairy Products Council held its thirteenth session on 26 September 1985.
2. The Council adopted the following agenda:
  - A. Admission of observers under Rules 11 and 14 of the Rules of Procedure
  - B. Review of the functioning of the Arrangement
  - C. Evaluation of the situation in, and outlook for, the world market for dairy products
  - D. Report to the CONTRACTING PARTIES
  - E. Tentative schedule of further meetings
  - F. Note by the Chairman on the present meeting
- A. Admission of observers under Rules 11 and 14 of the Rules of Procedure
3. 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.
4. 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.
- B. Review of the functioning of the Arrangement
  - Reports of the twenty-second and twenty-third sessions of the Committees of the Protocols
5. 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 twenty-second sessions of the Committee of the Protocol Regarding Certain Milk Powders (DPC/P/36), the Committee of the Protocol Regarding Milk Fat (DPC/F/37), and the Committee of the

Protocol Regarding Certain Cheeses (DPC/C/34). The Chairman mentioned that the full reports of the twenty-second sessions had been approved by the Committees recently and that these would be circulated shortly as documents DPC/C/35, DPC/P/37 and DPC/F/38. Furthermore, the Chairman of the Committees presented an oral report of the twenty-third sessions of the Committees, held on 23 and 24 September 1985.

6. The Committee of the Protocol Regarding Certain Milk Powders, the Committee of the Protocol Regarding Certain Cheeses and the Committee of the Protocol Regarding Milk Fat had held their twenty-third sessions consecutively on 23 and 24 September 1985.

7. After examining the replies to the questionnaires, the Committees considered the market situation for the products covered by each of the Protocols. The Committee of the Protocol Regarding Certain Milk Powders noted that the output of skimmed milk powder, totalling 4.6 million tons in 1984, had declined by 7 per cent from the 1983 level, mainly as a result of measures taken to reduce milk production in the EC, the United States and other countries. This downtrend had apparently continued in 1985 in the principal producing countries. On the other hand, exports of skimmed milk powder had risen in 1984, owing mainly to increased food-aid deliveries. A further rise appeared possible for 1985. World consumption of skimmed milk powder, which had grown in 1984, was once again levelling off in 1985. Stocks at the end of 1984, while still large, were nevertheless smaller than at the beginning of the year, mainly as a result of appreciable reductions in the public stocks of the EC and the United States. A further general decline was expected for 1985. The price range for skimmed milk powder had been US\$600 to US\$650 per ton f.o.b. in the first quarter of 1985, US\$630 to US\$700 per ton f.o.b. in the second quarter, and US\$685 to US\$800 per ton f.o.b. in the third quarter. The depreciation of the United States dollar vis-à-vis other currencies and the lower level of production had contributed to the strengthening of prices. As to whole milk powder, in 1984 production had recovered somewhat from its slump of 1983. In the EC, the main producer, output in 1984 had risen 9.2 per cent, and in New Zealand 33 per cent, over the 1983 level. Along with production, there had been an increase in exports of whole milk powder from the EC, New Zealand, Austria and Finland. International prices of whole milk powder, which had remained weak in 1984 owing partly to the appreciation of the United States dollar, had fluctuated in a bracket of US\$950-1,000 per ton f.o.b. in the last quarter of 1984. A further decline had been observed during the first six months of 1985, with prices ranging between US\$850 and US\$950 per ton f.o.b. At a special meeting held on 31 May 1985, the Committee of the Protocol Regarding Certain Milk Powders had decided to lower the minimum price of whole milk powder from US\$950 to US\$830 per ton f.o.b. During the third quarter of 1985, international prices appeared to have fluctuated between US\$890 and US\$1,010 per ton f.o.b.

8. The Committee of the Protocol Regarding Certain Cheeses noted that world cheese production had risen in 1984 and that the upward trend of recent years had continued in 1985, which was expected to show an increase of 2 per cent over 1984. All major producers seemed to have contributed to the expansion, due to the general firmness of the market. Exports had expanded more rapidly than production. The biggest increase had been in exports from the EC, which had risen 5 per cent from 406,000 tons to 428,000 tons in 1984, owing mainly to a recovery in demand by developing countries. Deliveries from a number of other countries had also risen. Three participants - Australia, New Zealand and South Africa - reported

sales of cheese under the derogation provided for by Article 7:2. Trade prospects for 1985 appeared to be good, given the strong demand for specialties, such as regional cheeses. Cheese consumption had continued to increase in 1984 to a level which, on the whole, was 2 per cent higher than that of 1983. As a result of measures taken to reduce production and increase commercial consumption through active sales campaigns and various cheese distribution programmes, stocks held by the United States had declined in 1984. This had led to a general decline in world stocks, the first in several years, which appeared to have continued in 1985. International prices of Cheddar cheese had ranged between US\$1,150 and US\$1,200 per ton f.o.b. during the first quarter of 1985. In the second quarter, prices had recovered somewhat to a range of US\$1,100 to US\$1,430 per ton f.o.b. owing to some firmness in the international cheese market. During the third quarter, prices had fluctuated between US\$1,050 and US\$1,270 per ton f.o.b., with the market remaining relatively firm.

9. The Committee of the Protocol Regarding Milk Fat noted that, at 7.6 million tons, butter production in 1984 had been about 1 per cent lower than in 1983. The EC had experienced an 8 per cent drop in 1984 and production was continuing to fall in 1985. In 1984, production had risen in New Zealand and Poland. In the United States, production in 1984 had been 16 per cent below the level of 1983, but it had strongly recovered during the first half of 1985 following a higher milk production. Some increases were reported for the German Democratic Republic and the USSR. Forecasts for 1985 suggested an overall decline of 3 per cent in world production despite anticipated increases in particular countries. In 1984, the market situation had been characterized by a high level of stocks, weak demand and strong competition, resulting in depressed prices. Butter exports had declined 2 per cent from the 1983 level and the outlook for 1985 was not very brilliant owing to abundant supply and weak international demand. Four participants - Australia, Finland, New Zealand and Norway - supplied additional data concerning butter deliveries under the provisions of the Resolution of 16 November 1984. World butter consumption, which was expanding somewhat more slowly in 1985, should be only slightly higher than in 1984. Although a number of measures had been taken to stimulate demand, aggregate consumption would probably remain stagnant. Total stocks of butter (public and private) held in the EEC amounted to 1,200,000 tons on 12 September 1985, as against 1,254,000 tons on 1 October 1984. In spite of special Christmas sales and large export contracts with the USSR, the level of stocks remained high. In the United States, stocks had fallen considerably to 134,000 tons on 1 April 1985 as a result of measures to curb production and of higher food-aid exports. The decline appeared to be continuing. In New Zealand, stocks had risen substantially, from 28,000 tons on 1 January 1983 to 119,000 tons on 1 April 1985, but they had dropped back to 78,000 tons during the third quarter. International butter prices had constantly deteriorated over the last two years, owing to a weakening of demand and the appreciation in the value of the United States dollar. Whereas they had ranged between US\$2,100 and US\$2,400 per metric ton towards the beginning of 1982, they had fallen to a range of US\$1,200-1,450 in the third quarter of 1984. Between 16 November 1984 and 31 May 1985, some sales had been made at prices below the minimum of US\$1,200 per metric ton. The decision of the Committee on the Protocol to revise the minimum price of butter downwards to US\$1,000 per metric ton was expected to contribute to the stabilization of the market somewhat, but at the same time it was feared that the high butter stocks would continue to exert pressure on the

market. In the third quarter of 1985, prices had ranged between US\$1,000 and US\$1,150 per ton f.o.b. The price situation and the level of stocks continued to cause concern. As to anhydrous milk fat, in 1984 production had risen in the EEC, Australia and New Zealand, and the upward trend appeared to have continued in 1985. EEC exports had amounted to 130,000 tons in 1984, i.e. 17 per cent higher than in 1983, and New Zealand's exports had increased nearly 21 per cent to 40,600 tons in 1984. Exports from those two sources had risen further in 1985. International prices of anhydrous milk fat had been weakening since 1983, when they had ranged between US\$2,350 and US\$2,400. During the first six months of 1985 they had fallen to between US\$1,290 and US\$1,650 per ton f.o.b. At a special meeting held on 31 May 1985, the Committee of the Protocol Regarding Milk Fat had reduced the minimum price from US\$1,440 to US\$1,200 per metric ton as from 5 June 1985. During the third quarter of 1985, prices ranged between US\$1,200 and US\$1,360 per ton f.o.b.

10. With regard to the outlook, the Committees were somewhat optimistic that the world supply and demand situation for certain dairy products, such as milk powders and cheeses, might improve somewhat in 1985 and 1986. As to butter, surplus stocks continued to weigh on the market and the situation remained one of concern.

11. The Committees reviewed the levels of minimum prices for the products covered by each of the Protocols, on the basis of the criteria established by the Arrangement. It was pointed out that the minimum prices for whole milk powder, butter and anhydrous milk fat had recently been reduced at the special meetings of the Committees held on 31 May 1985. It was noted that prices for most of the products had firmed following, in particular, the depreciation in the value of the United States dollar. It was also noted that producer costs had risen. Consequently, in the opinion of some participants, an increase in the minimum prices of certain products might be justified. However, other participants took the view that it would prove difficult to make sales at prices above the minimum prices, particularly in the case of butter. In view of the uncertainties affecting the current market situation, the Committees decided not to undertake modifications in minimum prices, which therefore remained unchanged. It was stressed that if the international market situation made it possible, the Committees could consider the question of a possible modification in minimum prices before the next regular annual review.

12. The Committees took cognizance of a note from Australia which raised the question of the adequacy of measures taken by participants to ensure observance of minimum prices (DPC/W/52). It was noted that this question was to be taken up by the Council when it reviewed the functioning of the Arrangement.

13. At a joint meeting, the Committees considered the question of adjustment of minimum prices in accordance with fluctuations in the exchange rate of the United States dollar. They took note of the document submitted by Australia (DPC/W/46/Add.1), for which they thanked that delegation. The Committees noted that the question of exchange-rate fluctuations was being considered in other fora. The importance of the question was stressed and it was noted that it would be appropriate to continue to examine it. The Committees felt, however, 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. The opinion prevailed that, in reviewing minimum prices, account should be taken of fluctuations in the exchange rate of the United States dollar, and the Committees took note of an idea put forward by New Zealand, who would shortly submit it in writing.

14. The next meetings of the Protocol Committees were scheduled to take place on 16 and 17 December 1985, subject to confirmation by the secretariat. The Committees also took note of a draft tentative schedule of regular meetings of the Council and the Committees in 1986 (DPC/W/49).

15. The Council took note of the reports of the meetings of the Committees of the Protocols and expressed its thanks to the Chairman of those.

- Replies to questionnaires 4 and 5

16. The Chairman recalled that on 13 August 1985, the secretariat had sent out an airgram concerning various information to be submitted by participants in the Arrangement. The responses to the airgram were reflected in the documents DPC/W/51 and DPC/INV/2/Rev.6 prepared by the secretariat. During the meeting further information was provided by Australia, Sweden and Uruguay.

17. He reminded delegations that the Inventory of Domestic Policies and Trade Measures, including information on commitments resulting from bilateral, plurilateral or multilateral negotiations would shortly be due for a complete up-date and revision. According to Article III of the Arrangement and Rules 23 and 29 of the Rules of Procedure, the full text of the inventory should be distributed to participants at the beginning of each three-year period. The Arrangement would be entering its third three-year period of operation on 1 January 1986, and he urged all participants to take the necessary steps at an early stage to ensure that the relevant information would reach the secretariat in due time.

18. The Council took note of the information submitted in reply to questionnaires 4 and 5 and of the reminder made by the Chairman.

19. Shortly before the meeting, Australia had submitted, in writing, a proposal 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 (DPC/W/52).

20. In introducing the paper to the Council, the representative of Australia mentioned that the matter was already since some time of concern to his delegation and that it had already been flagged at previous meetings. In his view, it was important to maintain the credibility of the International Dairy Arrangement, a credibility which had been restored with the compromise decision of 31 May 1985. Australia remained committed to international co-operation on dairy matters, but it had to be able to ensure that membership of the Arrangement would not entail the effect of disadvantaging Australian traders and to ensure that the integrity of the minimum price provisions must be respected in the future. He was confident that the measures applied by Australia to ensure compliance with its obligations under the Arrangement were effective. Repeated reports by Australian exporters about apparent breaches of the obligations by competitors made him

believe that it was necessary to clarify publicly the ability of other participants to meet their obligations. He recognized that different members would adopt different institutional arrangements, but he felt it reasonable to expect that each member could rely on a certain degree of public accountability of other members in meeting their obligations. Australia was proposing that the measures were put on the table to ensure the necessary transparency. It also proposed to have the measures reported in the context of questionnaire 5. Indeed he felt it to be anomalous that the questionnaire in its present form did not explicitly request participants to report on the most fundamental trade measures relating to the Arrangement. He hoped that a decision could be reached at this session, that the measures in question could be reported ahead of the December meetings of the Committees of the Protocols and that a preliminary discussion of the matter could take place at that time.

21. The representative of the European Communities found the Australian proposal to be almost an insult. He felt it to be rather offensive to ask participants to permanently and continuously prove their innocence and good behaviour. He could therefore not accept the proposal by Australia. He did not find the Australian proposal to be completely clear and it might even have created mistrust. He could not see that greater transparency was needed, not in the case of the Community, as every decision including the level of export refunds was published in the Official Journal. He felt that the real idea behind the proposal was to engage in a discussion on the adequacy of the measures applied and that was unacceptable to the Community.

22. In reply, the Australian representative affirmed that there was no implication in the Australian request that certain participants were guilty or not guilty or any demand for proving innocence. It was a principle and a well established practice within the framework of the GATT that participants notify measures applied which might be related to codes and arrangements. A good notification procedure could help to clarify and remove existing doubts.

23. The representative of New Zealand thanked Australia for the proposal which he did not find to constitute a demand or requirement to prove innocence. He shared the concern expressed by Australia to protect the integrity of the price provisions of the Arrangement and agreed that the viability of the Arrangement depended on a high degree of political will. He saw the proposal as a fair request to improve replies to questionnaire 5 by including complete information on measures adopted to ensure observance of obligations under the Arrangement, and his government was ready to report these measures. This was already public information. However, whilst his delegation was prepared to report the measures available to his government to ensure compliance with its obligations, a discussion of the matter would have to be carefully handled, and it would have to be acknowledged that this would concern some elements of domestic policy which could not be questioned.

24. The representative of Uruguay shared many of the views expressed by Australia and New Zealand and could give his support to the proposal. He failed to understand why anyone should feel offended by it. Anything that would contribute to greater transparency would help in further efforts to strengthen the Arrangement. He felt that the Australian proposal had many positive elements in it and would help to prevent non-compliance with the price obligations of the Arrangement.

25. The representative of South Africa could not see any difficulty in complying with the Australian proposal. However, a commitment once given should suffice. How a participant observed its obligations, was its own responsibility and the reporting of a measure should not entail a discussion on its adequacy.

26. The representative of Japan recognized the importance of the matter raised and agreed that the issue of observance of the minimum prices was a key one for the operation of the Arrangement. However, the late submission of the Australian proposal had prevented him from obtaining a reaction of his authorities and he would consequently be grateful for having an opportunity to revert to the proposal at a later meeting.

27. The representative of Poland thanked the Australian delegation for the proposal and said that he shared some of the preoccupations expressed. He did not see any major difficulties in complying with the idea. However, he recalled that the Arrangement operated within the GATT framework and basic GATT provisions would have to be observed as well. He considered presumption of compliance with the General Agreement and related arrangements to be a general basic rule. Contracting parties were supposed to notify measures affecting their trade, in particular if those represented a departure from GATT provisions. Any other contracting party which felt to be affected by the application of such measures had the opportunity to raise the matter in the appropriate GATT body. These principles, if properly observed, should be sufficient to safeguard the integrity of the General Agreement and the Arrangement. Consequently, he could not quite agree with the idea that contracting parties should themselves, and as a rule, justify the conformity with the Arrangement of any measure they applied.

28. The representative of Switzerland also thanked Australia for the paper submitted and agreed that the observance of the minimum prices of the Arrangement was a key issue and a cornerstone. He felt, however, that his delegation had fulfilled its obligations in this respect and that the information submitted by his delegation was complete and sufficient. In Switzerland all international arrangements were published and prior to accession the parties concerned had been consulted. International agreements were part of the legislation and the observance of related obligations, such as the observance of minimum export prices, were ensured de jure by law.

29. The representative of Australia expressed his thanks for the comprehension his proposal had met with. He regretted that some delegates might be reading more into the proposal than was indeed intended. He reiterated that the proposal was primarily aiming at increasing the transparency by completing the interpretation of the points in questionnaire 5. That was necessary to him because he was faced at home with continuing allegations by traders that they had to obey to stricter rules than their competitors. He would consequently need more complete information from other participants in order to be able to justify the astringency of Australian measures.

30. The representative of New Zealand found the comments made interesting and useful and would report them back to his authorities. He would be thankful if the discussion on the subject could be pursued at the earliest convenient opportunity.

31. The representative of the Community reiterated that all relevant information was published in detail in the Official Journal and he could not see that the Community could possibly provide any more details as the transparency in the case of the Community was already as great as it could possibly be. His main worry with the Australian proposal was that the notifications should facilitate the discussion of the justification or adequacy of the measures. He could not accept discussing the appropriateness of the measures applied. He reminded the Council that the Community traders were private operators, and the authorities could not have a complete control of the price range practised by those. What the authorities could do and were doing was to adopt measures which under normal circumstances would prevent traders to export the produce below the minimum export price and this was in conformity with the language of Article 3 of each of the Protocols, "... to take the necessary steps ...".

32. The representative of Australia said that his proposal was not aimed at the Community. It was a general request to everybody including Australia. The major aim of the proposal was notification and he admitted that it might be appropriate to clarify that further. He nevertheless stressed that Article 3 of each of the Protocols as alluded to by the Community, was an obligation undertaken by governments and recognized that some members might not take steps affecting individual traders directly. He realized that the discussions would have to be pursued on a later occasion and he wondered whether it could be reverted to already at the sessions of the Committees in December. He would be prepared to continue the discussion at that time.

33. The Chairman suggested that the Council should take note of the proposal by Australia as included in document DPC/W/52 and of the comments made. He also suggested to retain the question on the agenda of the Council, and that participants were invited to submit concrete proposals in writing on the matter well in time before the next meeting of the Council. This was agreed.

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

34. The Council had before it two papers prepared by the secretariat: Status Report on the World Market for Dairy Products (DPC/W/47) and Food-aid Operations Relating to Dairy Products (DPC/W/48).

- Dairy policy matters

35. The representative of Sweden reported on new guidelines adopted by the Swedish Government recently for an integrated agricultural and food policy. The main objective was to secure food supplies under normal as well as emergency conditions. Two general objectives were that (i) the consumer should have access to foodstuffs of good quality at reasonable prices and (ii) farmers should be assured a standard of living equal to that of comparable groups. Due regard should be given to public need for good environment and for economizing with natural resources. A two-price system for milk was applied on a trial basis since 1 July 1985. Participation by farmers in the system was voluntary. Those who chose to participate in the system would receive full home market price for a quota corresponding to 92 per cent of the largest annual delivery in the 1981 to 1983 period. For deliveries in excess of the quota they would receive a quota based on actual export returns. Farmers not

participating in the two-price system would receive a price corresponding to the home market price reduced by a levy calculated on the basis of the difference between the home market price and the export price and also taking into account the total quantity of milk delivered by producers not participating in the two-price system.

36. The representative of Australia reported that current arrangements would continue for the 1985/86 season on the basis of existing legislation; however, with two important changes: (i) a change in the basis of underwriting from 95 per cent of a three-year average of domestic and export returns to 90 per cent of a three-year moving average of export returns only; and (ii) abolition of the system whereby allowances to manufacturers to cover interest, transport and storage costs were met by the industry generally. These costs would now have to be met by the individual manufacturer incurring them. Minimum domestic support levels (which are not guaranteed by the government) had remained unchanged for the September 1985 quarter. As there was no change in nominal terms since 1 December 1982, this meant a decline in real terms of 17.8 per cent. In US dollar terms this reflected a drop from 16 cents per litre (1982/83) to 9 cents per litre (1985/86). A comprehensive package of new marketing arrangements for the dairy industry had been introduced into Parliament in May 1985 which had not yet been adopted and could not be put in place prior to 1 July 1986. Further discussions were being held with the industry on these new arrangements designed to gradually reduce governmental support and regulation of the dairy industry.

37. The New Zealand representative reminded the Council that the dairy industry in New Zealand was facing a very difficult time because of the currently depressed level of prices on international markets. Unlike dairy industries elsewhere, returns to dairy farmers in New Zealand were determined solely by export realizations without any direct government support nor did the industry benefit from higher domestic market prices. Farmers' incomes were sustained at present only by drawing heavily on the reserves which the industry had accumulated during earlier periods when export returns had been relatively better. These reserves were likely to be rapidly exhausted, should international prices remain depressed and the outlook give rise to serious concern. Recent movements in the value of the New Zealand dollar meant that industry reserves were likely to be drawn down even more heavily than had been earlier anticipated. He wanted this to be reflected in the revised version of DPC/W/47 (paragraph (a), page 6). In response to the difficulties currently being faced, especially on international butter markets, the industry had been concerned about achieving a closer match between production and available export market outlets especially in light of increased production and exports by others. The industry had therefore instituted a moratorium on accepting new suppliers. This was not a government initiative. It was a voluntary programme which had been organized on behalf of the industry by the New Zealand Dairy Board and accepted by all of the co-operative companies in the industry. It was motivated in part by concern that on the basis of the relatively worse outlook for other forms of pastoral farming in New Zealand, the potential existed for a significant shift of land and other resources into dairying. The objective was to achieve a measure of stability in production at around current levels recognizing that climatic factors would inevitably continue to cause fluctuations in the output.

- Total milk production

38. The Chairman invited delegations to enlighten the Council on the situation with respect to total milk and dairy production.

39. Uruguayan milk production for the second quarter 1985 had remained stable around 114,000 tons. Out of the total, about 38 per cent would normally be consumed fresh and of the rest, 59 per cent processed and 3 per cent fed to animals.

40. In Switzerland, the 1985 milk production was not expected to exceed that of the previous year, partly as a result of governmental measures applied to curb production, e.g. quotas and penalties to be paid by producers exceeding their quotas. It was hoped that milk deliveries could be slightly reduced in the near future. In Sweden milk deliveries during the first half of 1985 had been inferior to those of the corresponding period of 1984 by 1.1 per cent, and the decline was even more pronounced for the third quarter of 1985, i.e. 3 to 4 per cent. There had also been a decline in the cow's milk production in Norway for the first half of 1985, by more than 2 per cent. The decline was expected to be confirmed for the whole year and deliveries of cow's milk were expected to reach a total of 1,817 million litres, i.e. 2 per cent less than in 1984. However, the production of goats milk was increasing by 4 per cent a year. A campaign had been launched to increase liquid milk consumption. Also in Finland milk production was on the decline by 3 per cent for the first half of 1985 and the downward trend was expected to continue at least throughout the year.

41. In South Africa milk production was relatively high in 1985, in spite of quotas and levies applied to limit production. Also in Japan, milk production continued to expand in 1985, with an increase of 2.8 per cent for the first half year. There was a decline in liquid milk consumption of 0.6 per cent and an increase in milk used for processing by 8.5 per cent.

42. The 1985/86 dairy season had just commenced in New Zealand and estimates could only be made with considerable uncertainty. However, if present tendencies were confirmed, this would mean a decline of 3.6 per cent in terms of milk fat equivalent. In Australia the existing trend would continue, as a build-up of the dairy herd and higher yields were expected to result in an increase of 1.9 per cent in milk production for 1985/86 compared to the previous season, reaching a total of 6.3 million tons. For Canada it was reported that milk production continued to remain very stable, with only minor fluctuations.

43. For the European Communities, milk production and deliveries to dairies were estimated to decline by 2 and 1.6 per cent respectively for 1985 compared to 1984.

44. The observer of the Economic Commission for Europe reported on recent developments on the dairy production in Eastern Europe and the USSR. There had been a decline of 1 per cent in cow numbers in Eastern Europe from 1984 to 1985. There had also been a decline in cow numbers of 0.7 per cent in the USSR, the herds on State and collective farms amounted to 29.7 million cows on 1 July 1985. He estimated milk production in Eastern Europe to be slightly lower in 1985 than in the previous year, while for the USSR increased yields due to a favourable feed situation were likely to result in an increase in total milk production of 1 to 2 per cent. The 1985 butter production in Eastern

Europe was expected to be inferior to that in the previous year by 2 to 3 per cent. For the USSR, he expected the butter production to remain at the previous level of 1.6 million tons, while there might be a reduction in the margarine production of about 2 per cent. Butter consumption was expected to develop further by 3 per cent amounting to 5.6 kgs. per capita. USSR imports of butter had shown a decline of 2 per cent in 1984, amounting to 198,000 tons, while those of cheese rose by 5 per cent to 15,704 tons and milk powder imports increased by 22 per cent reaching 57,400 tons. Developments in exports had been different with an increase in those of butter by 2 per cent to 17,000 tons, and decreases of 16 per cent for cheese to 4,700 tons and for condensed milk by 4 per cent to 20,200 tons.

- Products not covered by the Protocols

45. The Chairman drew the attention of the Council to the chapter on the above-mentioned item included in document DPC/W/47 and said that the secretariat would appreciate the guidance of the participants on the need for this information and on how the chapter might be completed and adapted to the requirements for such information.

- Transaction other than normal commercial transactions

46. The Chairman invited members of the Council to comment on document DPC/W/48 which had been prepared by the secretariat on the basis of information on food aid available to it, and on the chapter on food aid of document DPC/W/47 (paragraph 39 and Table 5). He recalled that Article V of the Arrangement was unique in that similar provisions were not found in other commodity agreements. According to Article V 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 also 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 in the Council on these matters.

47. The representative of New Zealand noted that the secretariat document DPC/W/47 on world market for dairy products indicated a significant increase in the amount of dairy products donated as food aid. While not questioning the necessity for both emergency food aid and long-term development assistance for those countries in need, he stressed that the means by which such donations were made should continue to be carefully controlled and monitored. He would also suggest that, while the end was clearly justified, the means by which it was achieved often had questionable motives. Too often, food aid donations were seen as simply a convenient means to dispose of surplus dairy products. If the donors were acting in response to purely humanitarian motives, then the product would be more effectively sourced (i.e. getting more for your money) from the world's most efficient producers. In his view, food aid should not be cited as a justifiable objective for continued high cost production. Under no circumstances should food aid be a justification for future production increases on the basis of the support levels currently operating in the Community and other countries. He welcomed the signs of recognition that continued over-production in countries where producers were not exposed to market signals, could not continue unabated. It seemed clear to him that

restraints had so far not gone far enough, and for instance was Community production still in excess of domestic requirements by 15 per cent. Butter stocks continued to build up, and stocks of skimmed milk powder had the potential to be rebuilt, although food-aid donations had been instrumental in lowering them. Just as it had been clearly demonstrated that the Russian market was not a convenient sink-hole for surpluses, able to absorb an infinite amount of surplus butter stocks, so the food aid market should not be viewed as a permanent and inexhaustible outlet for stocks of skimmed milk powder and butteroil. He agreed that it was certainly a good sign that pressure of stocks (especially of skimmed milk powder) had diminished, but felt a note of warning should be sounded. The secretariat's paper made it clear that programmes introduced to encourage consumption had met with limited success (DPC/W/47, pages 41 and 42). It was obvious to him that a long-term solution to the problem, where this was not going to be achieved by responses to market signals, could only be found in the continued application of stringent production controls. Finally, he stressed that, with the increase in donations involving dairy products, it was vital that donor countries continued to adhere to the FAO:CSD principles of surplus disposal. He expressed some concern, as to the level of compliance with these principles, and the growing tendency for donations to involve the sale of product on the recipient market. He felt that these matters could be better pursued in the CSD, which he understood had already begun to study their implications. He was disappointed that other delegations did not find the subject of food aid and transactions other than normal commercial transactions worthy of discussion, and wanted that to be recorded as the view of his delegation.

- The situation and outlook in general

48. The Chairman suggested that when winding up the discussion on item C - "Evaluation of the market", the Council should keep in mind the provisions of Article IV of the Arrangement. He invited delegates to make comments on document DPC/W/47.

49. The representative of New Zealand thanked the secretariat for an excellent draft and gave his comments to different parts of it. As to the chapter on production, he mentioned that when discussing the effect of currency devaluation, it was important to keep in mind that there was a time lag in between a devaluation and the corresponding receipt of payment by farmers. Furthermore, the result of a devaluation might be uncertain and any conclusion of its effect should only be drawn with great caution. He commended the attempts made by some countries to restrict production, notably attempts made by countries with price support policies and said that these countries should be encouraged to pursue their policies to curb production. Although he appreciated that the Community had managed to reduce milk production by 2 per cent in 1985, he stressed that production remained far in excess of domestic requirements and would continue to have a depressive effect on world market prices. With respect to trade, he reiterated what he had already said about the role and effect of food-aid transactions and felt that this should be taken into account when finalizing document DPC/W/47. He recognized the Community efforts made to ease stocks of dairy products, but felt that further efforts were justified. Concerning the chapter on international prices, he stressed that it was important not to condone the export policies of particular countries which had the effect of manipulating international trade and not juxtapose that with market realities which had been enforced upon members. He would get in touch with the secretariat and suggest some changes in the draft.

50. The representative of Australia commended the secretariat for the status report. He welcomed the actions taken by countries in Europe to restrain dairy production and appreciated the present firmness of the milk powder market, but nevertheless remained slightly pessimistic about any sustained improvements in the prospects. He would hope that the current efforts by countries to freeze dairy production would be succeeded by more stringent programmes and quotas effectively reducing production to a level more in accordance with the world market demand. In his view, it was particularly critical that countries do not initiate new surplus disposal schemes on export markets without full consultations with other exporters. He had noted that in preparing the food-aid documentation, the secretariat had drawn heavily on CSD information, and imagined that there might be some overlapping of work. He would not however, at this stage, enter into a discussion of the adequacy of the CSD procedures or pronounce on a more formal procedure for reporting transactions other than normal commercial transactions to the Council. Finally, he expressed some concern with the resurgence in United States dairy production and the possible impact of the Farm Bill if adopted, both on the internal market and on the world market through United States surplus disposal.

51. The representative of Japan announced that he would shortly submit more recent information to the secretariat for inclusion in the final version of DPC/W/47.

52. The Council took note of documents DPC/W/47 and DPC/W/48; of the amendments suggested in those and of the comments made during its discussion of item D - Evaluation of the market. The Council agreed that the status report (DPC/W/47), as completed in light of more recent information made available to the secretariat and of comments made, should be given general circulation.

53. 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.

#### D. Report to the CONTRACTING PARTIES

54. The Chairman recalled that according to a decision by the CONTRACTING PARTIES of 28 November 1979 (BISD 26S/201), the Council was requested to report on its activities since the last session of the CONTRACTING PARTIES in November 1984. He suggested that the traditional procedure be followed once more, and that he should be authorized to submit on his own responsibility a concise and purely factual report to the CONTRACTING PARTIES on the activities of the International Dairy Products Council and its Committees since the 1984 session of the CONTRACTING PARTIES.

55. It was so agreed.

#### E. Tentative schedule of further meetings

56. In accordance with Rules 3 and 16 of its Rules of Procedure, the Council adopted the following tentative schedule of regular meetings in 1985 and 1986. It was understood that any special session would be in addition to this schedule and that all dates would remain subject to confirmation by the secretariat:

1985

16-17 December      Committee of the Protocol Regarding Milk Fat  
                         Committee of the Protocol Regarding Certain Cheeses  
                         Committee of the Protocol Regarding Certain Milk  
                         Powders

1986

17-18 March          Committee of the Protocol Regarding Certain Milk  
                         Powders  
                         Committee of the Protocol Regarding Milk Fat  
                         Committee of the Protocol Regarding Certain Cheeses

20-21 March          International Dairy Products Council

16-17 June           Committee of the Protocol Regarding Certain Cheeses  
                         Committee of the Protocol Regarding Certain Milk  
                         Powders  
                         Committee of the Protocol Regarding Milk Fat

22-23 September     Committee of the Protocol Regarding Milk Fat  
                         Committee of the Protocol Regarding Certain Cheeses  
                         Committee of the Protocol Regarding Certain Milk  
                         Powders

25-26 September     International Dairy Products Council

15-16 December      Committee of the Protocol Regarding Certain Milk  
                         Powders  
                         Committee of the Protocol Regarding Milk Fat  
                         Committee of the Protocol Regarding Certain Cheeses

F. Note by the Chairman on the present meeting

57. When closing the session the Chairman made the following summing-up of the discussions and which has already been circulated in document L/5872 dated 27 September 1985:

"1. The International Dairy Products Council held its thirteenth session on 26 September 1985.

2. Under Rules 11 and 14 of the Rules of Procedure, the Council invited representatives of Mexico and Panama and representatives of the Economic Commission for Europe, FAO, OECD and UNCTAD to attend the session as observers.

3. The Council reviewed the functioning of the Arrangement. It took note of reports on the implementation of the Protocol Regarding Certain Milk Powders, the Protocol Regarding Certain Cheeses and the Protocol Regarding Milk Fat, and also noted the concern expressed with regard to the situation in the market for the products concerned.

4. 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. 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. 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. The new minimum export prices became effective as of 5 June 1985. It had 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. 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.

5. 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.

6. The Council took note of the information submitted recently in reply to questionnaires 4 and 5, concerning products not subject to the provisions of the Protocols and concerning domestic policies and trade measures. It was recalled that the inventory based on replies to questionnaire 5 would soon be due for a complete updating and revision, and participants were urged to take the necessary steps at an early stage to ensure that the relevant information would reach the secretariat in due time. 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. For its traditional evaluation of the situation in, and outlook for, the world market for dairy products, the Council had before it two documents prepared by the secretariat, namely a status report on the world market for dairy products (DPC/W/47) and a note on food-aid operations (DPC/W/48). The Council took note of the documents and the comments made. It was agreed that the status report, as completed in light of more recent information and taking account of comments made, should be given general circulation.

8. 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.

9. The Council authorized the Chairman to submit to the CONTRACTING PARTIES a report on the work done since November 1984 in pursuance of the objectives of the International Dairy Arrangement. It was understood that the Chairman would do so on his own responsibility.

10. The Council adopted a tentative time schedule for regular meetings up to the end of 1986. In doing so, it was understood that any special session would be in addition to that schedule and that all dates would remain subject to confirmation by the secretariat."