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International Dairy Arrangement

INTERNATIONAL DAIRY PRODUCTS COUNCIL

The Functioning of the International Dairy Products Arrangement - Various Issues for Consideration

Informal Note by the Secretariat

There have been recent suggestions that a number of aspects of the International Dairy Arrangement should be examined and discussed by participants. These range from concerns regarding purely procedural aspects of the Arrangement (some of which were outlined by the Secretariat in DPC/W/115), to issues of considerable substance. For instance, the decision by participants in June 1993 to grant a derogation for minimum prices for butter and butter oil was taken expressly as a short-term measure to address the problems facing the world butter market. At that time, many participants stressed the need to also examine some possible long-term solutions to the difficulties in the world butter market. A number of these issues were identified by New Zealand in a background paper (DPC/PTL/W/93).

This background paper puts forward some issues for consideration regarding both procedural issues as well as specific solutions to particular problems which have been suggested by various participants in the past.

PROCEDURAL ISSUES

In September 1992, the Council undertook a brief review of its Rules of Procedure based on a background note prepared by the Secretariat (DPC/W/115). Most participants argued that it was not appropriate to undertake a full review of the Rules of Procedure at that stage in the Uruguay Round negotiations. The Council did, however, agree to immediately revise Rule 11 so that countries which had not participated in the previous round of negotiations could request observer status in the IDA. A number of participants also suggested that it would be useful to establish a task force to critically examine the existing formats of the questionnaires and to suggest possible modifications.

As the Uruguay Round negotiations are expected to soon conclude, the Council may wish to consider whether it would now be appropriate to begin a review of the working procedures of the Council and Protocol Committees, including their Rules of Procedure and the format of questionnaires. Some of the questions which participants may wish to consider include:

1. Is the current schedule of meetings the most desirable? Should there be a reduction in the frequency of meetings of the Protocol Committees?
2. Is the schedule of Status Reports/Annual Report the most desirable?

3. Could the scheduling and/or format of questionnaires be improved? Would it be useful to compile information on milk deliveries on a more frequent basis? Should consistent reporting of data on the value of dairy production and exports be requested? Would it be feasible to request that questionnaire data be provided also in an electronic form?
4. Would the functioning of the IDA be improved if meeting agendas included a focused discussion on particular themes of importance to dairy trade - such as the US DEIP, the use of BST in dairy production, assessment of the markets of the former Soviet Union or identification of other markets of growing importance?
5. Should other countries, and in particular major producing and importing countries and countries whose dairy policies have been undergoing fundamental changes, be actively encouraged to participate as observers to the IDA?
6. Should regular observers to IDA meetings be expected to contribute to the exchange of information and discussion of the market situation for dairy products?

SPECIFIC PROBLEMS

In June 1993, New Zealand prepared a background paper with respect to problems in the milk fat markets, particularly of the former Soviet Union (DPC/PTL/W/93). In that paper, New Zealand argued the need to find both short-term and long-term solutions to this problem. The short-term solution proposed by New Zealand, a temporary derogation to permit sales of butter and butter oil to the former Soviet Union at prices below the IDA minima, was agreed by the Committee in June 1993. At the same time, New Zealand suggested four possible longer-term solutions for consideration:

(1) Expression of the minimum prices in ECU or another European currency (such as the Deutschmark) rather than US dollars, to reflect the major share that Europe has of international trade in milk fats and to minimize the effect of currency exchange movements, in particular when prices are near or at the IDA minima.

(2) Definition of the minima for butter and butter oil on a c.i.f. basis to avoid disadvantaging traders distant from markets.

(3) Approaches to significant exporters of milk fat who are not members of the IDA to encourage them to ensure that food-aid transactions with the FSU have better regard to the legitimate interests of commercial exporters to those countries.

(4) A downward adjustment in the level of the IDA minimum price for butter to take account of changes in the underlying value of milk fat and protein in major dairy markets.

This suggestion raises another issue which has previously been brought to the attention of participants:

(5) The possibility of adjusting the price relationship between pilot products.

In June 1993, South Africa also raised an alternative solution with respect to the milk fats situation:

(6) Suspension of the minimum price requirements until a more effective system is put in place.

The following paragraphs provide some information on these points in light of the provisions of the Arrangement.

i. **Use of other currency for denomination**

A change in the currency in which the minimum prices are established would normally require formal amendment of the respective Protocols of the IDA. Such amendment is possible under Article VIII:5 of the Arrangement, but would enter into force only if accepted by the governments of all participants. However, if all participants are in agreement to make the change, it may be possible to do so through a formal decision, with the issuance of a declaration to that effect.

2. **Definition of the minima for butter and butter oil on a c.i.f. basis**

As with a re-denomination of the currency in which the minimum prices are established, a decision to establish the minima on c.i.f. terms would normally require formal amendment of the relevant protocols, through Article VIII:5 of the IDA.

3. **Approach exporters of milk fat who are not members of the IDA to ensure that food-aid transactions with the FSU have regard to the legitimate interests of commercial exporters to those countries**

An exhortation to non- IDA exporters with respect to food-aid transactions to the former Soviet Union is feasible. Such a request can be done both through approaches to individual food-aid suppliers as well as through the FAO Consultative Sub-Committee on Food Surplus Disposal (CSD). It is this latter body which has primary responsibility in determining that food-aid transactions do not negatively affect legitimate commercial sales to recipient countries. The concern of IDA participants with respect to milk fat donations to the former Soviet Union could either be raised individually by member government representatives in the CSD, or more formally through a communication from the IDA Chairman.

In July 1990, the Committees issued an appeal to non-participating countries not to sell dairy products below the IDA minimum prices (see L/6715 and DPC/PTL/12).

4. **Downward adjustment in the level of the IDA minimum price**

It is of course within the mandate of the respective Protocol Committees to reduce the levels of the IDA minimum prices. Such a decision could be taken by consensus of the Milk Fat Committee in the course of its review of minimum prices, which is scheduled for September. A decision to reduce an IDA minimum price normally takes effect immediately.

The IDA minimum prices for butter, anhydrous milk fat and for whole milk powder were reduced on 5 June 1985.

5. **Adjustment of the price relationship between pilot products**

This issue has been raised by various participants in the past. They note that the market relationship between milk fats and milk proteins has been evolving and appears to have changed fundamentally since the beginning of the IDA. Whereas milk fat had previously been considered the most valuable milk component, in many markets it now appears that the premium is for milk protein rather than fat. Changing demand patterns are leading to changes in the milk pricing structure of many major producers, with milk being valued for both its protein and fat content and with increasing importance given to the protein content. At the same time, however, market demand for some relatively high fat products such as whole milk powder and cheese has been growing.

IDA participants have, in the past, also discussed the relativities between the minimum prices for anhydrous milk fat and for butter. Some participants expressed the view that the current differential between the minimums was too small. The delegation of Australia circulated a communication (DPC/PTL/W/70) in which it made the case that the minimum price relativity should not be based only on the technical relationship between the two products, but also on a consideration of market issues pertaining to both supply and demand. On this basis, the Australian paper concluded, the current relativity between the minimum prices of anhydrous milk fat and butter is reasonable.

As the schedules of price differentials according to milk fat content are an integral part of the Arrangement, adjustment of the price relationship between pilot products would normally require amendment according to Article VIII:5 of the IDA.

6. **Suspension of the minimum price requirement**

It is also within the mandate of the Protocol Committees to suspend the application of minimum export prices. In 1984, the Milk Fats Committee was unable to reach agreement with respect to the minimum prices. The matter was subsequently raised in the Council under Article IV:6 of the Arrangement, and on 16 November 1984 the Council decided to suspend the minimum prices for butter and anhydrous milk fat (DPC/16). The suspension was *sine die*. After a number of special meetings, on 5 June 1985 a consensus was reached to re-establish minimum prices for these products, but at a lower level.