

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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## Multilateral Trade Negotiations

Group "Agriculture"

Sub-Group on Dairy Products

### INFORMATION DOCUMENT ON INTERNATIONAL OR REGIONAL CO-OPERATION DEVICES EXISTING IN THE DAIRY PRODUCTS SECTOR

#### Introduction

1. This information document has been prepared in response to the request made by the Sub-Group on Dairy Products at its meeting of 23-25 June 1975. In accordance with the wishes of the Sub-Group (MTN/DP/1, paragraph 5), it concerns international or regional co-operation devices already existing in GATT or other bodies. This document reviews the main provisions of the Arrangement concerning Certain Dairy Products and the Protocol relating to Milk Fat (both drawn up within GATT) as well as the main clauses of the OECD Gentleman's Agreement on exports of whole milk powder. Lastly some information is presented concerning the FAO Principles of Surplus Disposal and Consultative Obligations of Member Nations.

#### Arrangement concerning Certain Dairy Products

2. At their twenty-fourth session in November 1967 the CONTRACTING PARTIES recognized that an urgent problem requiring immediate attention existed in regard to dairy products. Since the situation in international trade in dairy products was characterized more and more by growing imbalance between supply and demand, the Council agreed in December 1967 to establish a Working Party on Dairy Products to conduct, on behalf of the CONTRACTING PARTIES, consultations under Article XXII:2 on urgent problems in international trade in dairy products with a view to arriving at mutually acceptable solutions.

3. The Working Party on Dairy Products drew up in 1969 a text entitled Arrangement concerning Certain Dairy Products which entered into force on 14 May 1970. The Arrangement applies to skimmed milk powder and to such other products as may be added at a later date. It has been accepted by Australia, Canada, the European Communities and their member States, Japan, New Zealand, South Africa, Spain and Switzerland. Austria, Hungary and the United States participate as observers in the work of the Management Committee of the Arrangement.

4. The essential provisions of the Arrangement concern the minimum price of skimmed milk powder and are set forth in Article III regarding the level and observance of the minimum price, adjustment of that price, exports for purposes of animal feed, special conditions of sales, field of application, and transactions other than normal commercial transactions.

5. As regards the level and observance of the minimum price, participants undertake to take the steps necessary to ensure that the export price of skimmed milk powder is not less than the agreed price, which was initially fixed at US\$20 per 100 kgs. f.o.b. for the reference product. The level of the minimum price can be adjusted by the Management Committee established in terms of Article VII, taking into account the results of the application of the Arrangement and the evolution of the situation of the international market. In accordance with these provisions, the Management Committee has decided on two occasions to adjust the minimum price: in May 1971 the minimum price was raised to \$25 per 100 kgs., and in December 1973 it was increased to \$35 per 100 kgs.

6. Article III, paragraph 5 provides a derogation in respect of exports for purposes of animal feed. Subject to certain guarantees, sales at prices below the specified price are permitted if the skimmed milk is intended for animal feed.

7. Article III, paragraph 8 stipulates that the minimum price does not apply to donated exports or exports destined for relief purposes or welfare purposes in developing countries. Such exports are effected in accordance with the FAO Principles of Surplus Disposal and are subject to the procedures for notification and consultation agreed upon in FAO.

8. Exports of skimmed milk powder for welfare purposes in developed countries are subject to the pricing provisions of Article III. However, paragraph 9 of that Article provides that a derogation under Article VII may be granted, when justified, after taking into account the specific character of welfare shipments, their trade effects and other factors.

9. Article VI, comprising provisions concerning food aid, stipulates that participants agree to act in co-operation with FAO and other interested organizations in respect to ways and means through which dairy products may be made available for the benefit of developing countries. Participants likewise agree to incorporate, where possible and appropriate, the donation or sale on concessional terms of dairy products in their respective aid programmes. Lastly, recognizing the need to avoid harmful interference with normal patterns of production and international trade, participants agree to exchange views on their arrangements for the supply of dairy products as food aid or on concessional terms.

10. The Arrangement is administered by a Management Committee comprising representatives of all participants which is empowered to settle all problems that might arise in the implementation of the Arrangement. The Committee, which normally meets once each quarter, keeps under constant review the situation in the international market for skimmed milk powder and the conditions under which the provisions of the Arrangement are applied by participants.

11. The Arrangement is valid for one year and is tacitly extended for further periods of one year at a time. The Arrangement continues to operate satisfactorily and entered into its sixth year of operation in May 1975.

#### Protocol relating to Milk Fat

12. Since the Arrangement fixing the minimum price for skimmed milk powder provides that it may be extended to other products at a later date, the Working Party on Dairy Products examined the possibility of adopting similar measures in regard to milk fat. Following negotiations with a view to extending the Arrangement to this product, the Working Party drew up a text entitled Protocol relating to Milk Fat which entered into force on 14 May 1973. The Protocol has been accepted by Australia, Canada, the European Communities and their member States, Japan, New Zealand and Switzerland. Austria, Hungary, Spain and the United States participate in the work of the Management Committee of the Protocol as observers.

13. Under Article III, paragraphs 1-6 of the Protocol, concerning the minimum price, participants undertake to take the steps necessary to ensure that the export price of butteroil (or butterfat) is not less than the agreed price, which has been fixed at US\$68 per 100 kgs. f.o.b. for the pilot product. The level of the minimum price can be modified by the Management Committee of the Protocol established in terms of Article VII. Under Article III, paragraph 7, the minimum price is not applicable to donated exports or to exports intended for relief purposes or welfare purposes in developing countries.

14. Most of the provisions of the Protocol, in particular those concerning co-operation of importing countries, food aid and administration of the Protocol, are similar to those of the Arrangement concerning certain Dairy Products. However, the Management Committee of the Protocol is not empowered to grant derogations from the price provisions of Article III.

15. The Protocol is valid for a one-year period which is tacitly extended for further periods of one year at a time. It continues to operate satisfactorily and entered into its third year of application in May 1975.

Gentleman's Agreement on exports of whole milk powder

16. A number of countries exporting whole milk powder have adopted, under the auspices of OECD, a text entitled "Gentleman's Agreement on Exports of Whole Milk Powder" which came into force on 15 February 1963. Its aim is to maintain a certain degree of stability in the international market for whole milk powder and to avoid excessive competition which would have the effect of reducing export prices to an abnormally low level, as compared with the production cost of efficient producers. The Gentleman's Agreement was renewed in 1964, 1967 and in 1970. The Adhering Parties to the Revised Understanding which came into force on 1 February 1973, are: Australia, Austria, European Economic Community, Norway, New Zealand, Sweden and Switzerland.
17. In its provisions concerning the floor price, the Understanding stipulates that the participants undertake to apply certain measures in order to prevent the export prices practised in their respective countries from falling below an agreed level. The floor price in force since 1 March 1974 is US\$60 per 100 kgs. f.o.b. for whole milk powder with 26 per cent fat content. If the product exported differs from the standard product in respect of fat content, the floor price is adjusted in accordance with certain provisions mentioned in the Understanding.
18. The Understanding is administered by a Standing Committee comprising representatives of all participants, which acts as necessary to ensure the application of the Understanding. Decisions of the Standing Committee are taken unanimously by participants' representatives present. The Standing Committee meets, in principle, once in each quarter.
19. The Understanding stipulates that the Standing Committee may grant derogations from the provisions concerning the floor price if it is shown that compliance with the Understanding is causing serious difficulties to certain participants.
20. In the provisions concerning coverage, it is stipulated that the floor price applies to commercial exports of whole milk powder. The Understanding does not apply to non-commercial exports made under the auspices of governments for the benefit of developing countries or less-favoured groups; such exports are deemed to be special operations and should be notified to the Standing Committee in advance, if possible.
21. The Understanding is tacitly renewed each year for a further one-year period subject to amendments, which may be made at any time. Lastly, it is stipulated that the Understanding may be declared to have lapsed if a wider agreement on dairy products, including whole milk powder, were concluded.

FAO Principles of Surplus Disposal

22. According to an FAO publication<sup>1</sup> setting forth the basic texts leading to the adoption of the FAO Principles of Surplus Disposal, in 1953 the FAO had recommended general principles that should be taken into account by governments in order to minimize adverse international effects of a situation characterized by the existence of surplus supplies of some agricultural commodities. Following these recommendations the Principles of Surplus Disposal were drawn up and the Consultative Subcommittee on Surplus Disposal (CSD) was established in FAO in 1954.

23. CSD is a consultation forum and surveillance body in respect of food aid and certain other transactions on concessional terms concerning international trade in agricultural commodities. It acts in accordance with the FAO Principles of Surplus Disposal and the relevant implementing guidelines and established procedures. CSD comprises forty-five member States which are listed in the Annex hereto.

24. The FAO Principles of Surplus Disposal have been described as an international code of conduct for disposal of agricultural surpluses and transfers of food aid. The General Principles (1-3) underline the need to seek solutions to problems of surplus disposal by increasing consumption rather than restricting supplies; to dispose of surpluses in an orderly manner; and to give an undertaking that such disposal will be made "without harmful interference with the normal patterns of production and international trade". The principles governing sales on concessional terms (4-6) cover certain factors in the light of which harmful interference with prices and patterns of production and trade can be ascertained and assessed, in particular additional consumption (i.e. consumption which would not have taken place in the absence of the deliveries concerned). Principles Nos. 7-9 concern resale or re-export of commodities supplied on special concessional terms and the sale of government-held stocks in exceptional volume, or at an exceptionally rapid rate.

25. Since 1963, CSD has reported certain facts concerning the scope and nature of near-commercial and extra-commercial transactions in respect of agricultural commodities, and difficulties encountered in determining the extent to which governments were observing the Principles. Following in-depth intergovernmental deliberations in 1969 and 1970, agreement was reached on new procedures for notification and consultation in pursuance of the Principles. These new procedures stipulate the modalities for notifying CSD and the consultative obligations of

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<sup>1</sup>The information in paragraphs 22-27 is taken from "FAO Principles of Surplus Disposal and Consultative Obligations of Member Nations", 1972, FAO, Rome.

member States for certain specified categories of transactions enumerated in the "Catalogue of Transactions"; in addition, they lay down the procedures for establishing Usual Marketing Requirements (UMR) to ensure application of the principle of additional consumption.

26. As regards procedures for the establishment of UMR, the need for safeguarding usual commercial trade is re-affirmed. It is recommended that any transaction undertaken by governments in categories subject to prior consultation be subject to the clause of maintenance of the usual commercial imports in order to ensure that the transaction would result in additional consumption and did not harmfully affect normal patterns of production and trade. Thus, the UMR clause is defined as being a specific agreement by the recipient country to maintain at least a specified level of commercial imports of the commodity concerned in addition to any imports of the same commodity under a concessional transaction. Transactions in dairy products notified to GSD include some in respect of skimmed milk powder and anhydrous milk fat.

27. As regards the position of developing countries, it is re-affirmed that the governments of recipient countries are under no obligation to take steps for prior consultation or reporting and that the recommended procedures for consultations and reporting should not constitute an obstacle to, or cause undue delay in, the provision of food aid urgently required by a developing deficit country. In addition, it has been agreed that special consideration should be given to the interests of developing exporting countries and to the safeguarding of local production and markets of developing countries.

ANNEX

LIST OF CSD MEMBER NATIONS, OBSERVER NATIONS AND  
OBSERVER ORGANIZATIONS

Member Nations (45)

Argentina	Italy
Australia	Jamaica
Austria	Japan
Belgium	Lebanon
Bolivia	Malawi
Brazil	Mexico
Burma	Netherlands
Canada	New Zealand
Costa Rica	Nigeria
Cuba	Pakistan
Denmark	Panama
Ecuador	Paraguay
Egypt, Arab Rep. of	Peru
France	Spain
Germany, Fed. Rep. of	Sri Lanka
Ghana	Sweden
Greece	Switzerland
Guatemala	Thailand
India	Turkey
Indonesia	United Kingdom
Iraq	United States
Ireland	Uruguay
Israel	

European Economic Community

Observer Nations (19)

Chile	Laos
Colombia	Libya
Dominican Republic	Malta
El Salvador	Norway
Finland	Philippines
Honduras	Portugal
Iran	Saudi Arabia
Jordan	Tunisia
Korea	Viet-Nam
	Yugoslavia

International Organizations

International Bank for Reconstruction and Development  
International Cotton Advisory Committee  
International Federation of Agricultural Producers  
International Monetary Fund  
Organisation for Economic Co-operation and Development  
Organization of American States  
United Nations Economic Commission for Latin America