1. The International Dairy Products Council held its fifteenth session on 30 September and 1 October 1986.

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

3. The Council invited the representative of Panama in the capacity of observer, 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. Accordingly he invited these organizations to participate in the present session as observers. Furthermore, an observer for the IMF was invited to attend the session, in conformity with Rule 14 of the Rules of Procedure.

B. Review of the functioning of the Arrangement

Reports of the twenty-sixth and twenty-seventh 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-sixth sessions of the Committee of the Protocol Regarding Certain Milk Powders (DPC/P/42), the Committee of the Protocol Regarding Milk Fat (DPC/F/43), and the Committee of the Protocol Regarding Certain Cheeses (DPC/C/40). The Chairman mentioned that the full reports of the twenty-sixth sessions had been approved by the Committees recently and that these would be circulated shortly as documents DPC/F/44, DPC/C/41 and DPC/P/43. Furthermore, the Chairman of the Committees presented an oral report of the twenty-seventh sessions of the Committees.

6. The Committee of the Protocol Regarding Milk Fat, the Committee of the Protocol Regarding Certain Cheeses, and the Committee of the Protocol Regarding Certain Milk Powders held their twenty-seventh sessions consecutively on 29-30 September and 1 October 1986.

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 Milk Fat noted that world production of butter reached the level of 7.6 million tons in 1985, which was about 1 per cent down from a year earlier. Substantial reductions were recorded for the EC and other European countries, Australia and Canada and there was also a slight reduction in New Zealand butter production. The decrease in world output took place despite a strong
recovery in the United States and some other countries. Although Community butter production was initially expected to fall in 1986, preliminary figures for the first half of the year indicated a significant increase in Community butter supplies. Figures for North America also indicated that the availability of butter would be even greater than in 1985. In spite of a further decline in butter production in European countries outside the EC and production in Oceania at the level of last year, total world supplies of butter might again substantially exceed demand in 1986. Total world consumption of butter showed a slight increase in 1985, and was expected to increase further in 1986 as a result of numerous measures adopted to promote consumption in many countries.

8. The market for butter and anhydrous milk fat continued to be adversely influenced by excessive supplies and burdensome surpluses in 1986. World exports of butter in 1985 were around 5 per cent over the level of the previous year. This was mainly due to increased sales by Australia and New Zealand. There was a reduction in butter exports from other participants, notably the EC and Finland, and also the United States. Initial forecasts for 1986 had suggested a slight increase in butter exports, but the butter market remained depressed throughout the early part of 1986 causing serious doubts as to whether it would in fact be possible to increase exports. Some particular efforts by the EC to sell old butter with a heavy discount and by the United States to dispose of butter under the Food Security Act of 1985 had not produced the results hoped for.

9. The Committee took note of the notification presented by New Zealand (DPC/F/W/25) in pursuance of the Decision adopted on 31 May 1985 (DPC/F/35). It also took note of additional information furnished by the EC in the context of the notification (DPC/F/W/23/add.1) addressed under the Decision of 31 May 1985 (DPC/F/35).

10. Increased milk production and slack demand resulted in further accumulation of stocks in 1986. Community butter stocks reached new record levels, amounting to 1.39 million tons on 11 September 1986, compared with 1.2 million tons on 12 September 1985. Apart from the increase in Community milk deliveries, reduced production of cheese, whole milk powder
and condensed milk, and reduced sales of fresh liquid milk following the Chernobyl accident resulted in more milk being diverted to the processing of butter and skimmed milk powder, which in turn boosted intervention stocks. In the United States, stocks were again replenished in 1986 after having been low in the middle of 1985. Abundant stocks of butter meant that available supplies remained far in excess of market requirements and that world markets would remain oversupplied and depressed in the near future.

11. In the past three years, international prices of butter have declined continuously, in particular because of slack demand. Prices remained depressed in 1986, near the minimum export prices set under the Arrangement. The situation in regard to prices and stock levels for butter continued to cause concern.

12. As regards anhydrous milk fat, output increased slightly in 1985 in the EC, but was somewhat lower in New Zealand and Australia. Exports by the EC increased. Exports by New Zealand dropped while those of Australia showed a pronounced increase in 1985. In the first half of 1986, there was an appreciable decline in exports by each of these three participants.

13. The Committee of the Protocol Regarding Certain Cheeses noted that world production of cheese in 1985 - 12.8 million tons - was 3 per cent above the preceding year's level; it was expected to continue its upward trend and to increase by another 2 per cent in 1986. Cheese consumption rose by a further 3 per cent in 1985 and the trend was expected to continue in 1986.

14. There was a decline in international cheese trade from 1984 to 1985, mainly due to lower shipments by the EC. In 1986, total world trade seemed to be recovering and it appeared that the record level of 1984 would again be achieved. However, international markets for cheese remained very competitive for certain qualities of cheese and in particular regions. The Committee took note of a notification by New Zealand concerning sales of cheese under Article 7:2.

15. At the end of 1985, world cheese stocks were slightly lower than one year earlier, and were expected to show a further decline at the end of 1986.
16. In the third and fourth quarters of 1985, the market for Cheddar cheese remained relatively firm. Prices of cheddar cheese improved somewhat in the early part of 1986, but towards the middle of the year again came under market pressure due to abundant supplies. In the third quarter of 1986, prices were fluctuating between US$1,050 and US$1,300 per ton f.o.b.

17. The Committee of the Protocol Regarding Certain Milk Powders noted that total world production of skimmed milk powder was again lower in 1985, amounting to 4.2 million tons. For the first six months of 1986, substantial increases in production were reported in the EC and North America, more than outweighing a decline in Oceania and some European countries, and world skimmed milk production was expected to increase in 1986. World consumption of skimmed milk powder, which had expanded in 1984 compared to 1983, decreased in 1985 with a marked decline in some developed countries.

18. World exports of skimmed milk powder (including food aid) increased in 1985, mainly as a result of a steep rise in foreign donations by the United States. In the first six months of 1986, exports by the EC, New Zealand and Australia declined, while United States deliveries increased.

19. Total stocks of skimmed milk powder in the EC, North America and Oceania of approximately 1.24 million tons on 1 April 1986 were up by 18 per cent from one year earlier. At 1 July 1986, EC stocks totalled 887,000 tons as against 381,000 tons on 1 July 1985. Subsequently they increased further, reaching 914,000 tons on 11 September 1986. It was noted that in order to reduce stocks, the EC had re-introduced special disposal measures in the "pig and poultry" compound feed sector. On 1 July 1986, stocks of skimmed milk powder in the United States, New Zealand and Australia were below their levels one year earlier.

20. Prices of skimmed milk powder improved appreciably in the latter part of 1985 and early 1986. They dropped slightly in the second quarter of 1986 but remained well above the agreed minimum export price. Prices firmed in the third quarter, in particular because of the depreciation of the United States dollar, and were fluctuating between US$740 and US$800 per ton f.o.b.
21. Output of whole milk powder, which is more closely related to specific demand than that of some other dairy products, continued to increase in 1985 but at a slower rate than in 1984. In the first six months of 1986, EC production declined, while output increased in New Zealand and Australia. Total exports by the main exporter participants increased slightly in 1985. In the first six months of 1986, exports by the EC declined while those of New Zealand and Australia increased. In the third and fourth quarters of 1985, prices of whole milk powder firmed and the trend continued in the first two quarters of 1986. In the third quarter of 1986, prices were fluctuating between US$930 and US$1,000 per ton f.o.b.

22. The Committees took note of opinions expressed on the adequacy of measures taken by participants in regard to the observance of the minimum prices. It was noted that the matter would be reverted to at a subsequent meeting.

23. The Committees carried out the review of the levels of minimum export prices covered by respective Protocols, on the basis of the criteria established by the Arrangement.

24. The Committee of the Protocol Regarding Certain Milk Powders and the Committee of the Protocol Regarding Certain Cheeses decided, in conformity with the provisions of Article 3:3(a) of each of the Protocols, that the levels of the minimum prices specified in Article 3 of each of the Protocols should be modified and that their decision should take effect at noon on 2 October 1986. The new minimum prices were:

- Skimmed milk powder 680 US$ per metric ton f.o.b.
- Whole milk powder 880 US$ per metric ton f.o.b.
- Butter milk powder 680 US$ per metric ton f.o.b.
- Certain cheeses 1,030 US$ per metric ton f.o.b.

The schedule of price differentials according to milk fat content set forth in Annex Ib of the Protocol Regarding Certain Milk Powders was consequently modified. The decisions would be duly recorded in the reports of the
Committees and would be the subject of a procès-verbal signed by the Director-General of the CONTRACTING PARTIES to the General Agreement on Tariffs and Trade, certifying the entry into force of the new minimum price.

25. The next meetings of the Committees of the Protocols were to be held on 15 and 16 December 1986, subject to confirmation by the secretariat. The Committees took note of a preliminary programme of further regular meetings up to the end of 1987 (DPC/W/64).

26. In relation to the decision to increase the minimum export prices for certain powders and cheeses, the Community representative urged participants not to make offers or conclude sales in the short period that still remained before the new prices would be effective. The representative of Poland reserved the right of his delegation to revert to the question of the minimum export price for skimmed milk powder, and if necessary or appropriate review its level at the Committee's meeting in December in light of further developments in the market situation.

27. The Council took note of the reports on the implementation of the Protocol Regarding Milk Fat, the Protocol Regarding Certain Cheeses and the Protocol Regarding Certain Milk Powders, and in particular noted that the minimum export prices had been modified for certain milk powders and cheeses. It also noted the comments made. The Council expressed its thanks to the Chairman of the Committees for his excellent work and the reports.

Replies to Questionnaire 4

28. The Chairman recalled that questionnaire 4 concerned information on milk and dairy 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 12 August 1986, the secretariat had circulated a reminder requesting that relevant information be submitted by 15 September 1986. At the time of the meeting, replies had been received from the following countries: Argentina, Australia, Bulgaria, Canada, European Communities, Finland, Hungary, Japan, New Zealand, Poland, South Africa, Sweden, Switzerland and Uruguay.
29. The Council took note of the information submitted, which had been or would shortly be circulated in the DPC/STAT/- series.

Replies to Questionnaire 5

30. The Chairman recalled that the inventory of all measures affecting trade in dairy products, including commitments resulting from bilateral, plurilateral and multilateral negotiations was due for a complete update and revision. According to Article III of the Arrangement, and to 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 had entered its third three-year period of operation in January 1986. He consequently urged all participants that had not already done so to take the necessary steps to ensure that the relevant information would reach the secretariat in the near future.

31. The Council took note of document DPC/INV/3/Rev.2 which showed the state of the inventory. It furthermore noted recent submissions by New Zealand and Norway which would be circulated shortly in the DPC/INV/3/- series, but which were for the moment available in their original language only.

Proposal by Australia concerning provisions of information on the measures taken to ensure the observance of the minimum export prices

32. The Chairman recalled that the Australian proposal had been before the Council for some time. Records of the discussions were to be found in documents DPC/24 and DPC/25. Furthermore, Australia had raised the matter at recent meetings of the Committee of the Protocol Regarding Milk Fat (DPC/F/41, DPC/F/42 and DPC/F/43) and there were altogether three documents that Australia had submitted on the matter (DPC/W/52, DPC/W/57 and DPC/W/60).

33. The representative of Australia recalled that he had already spoken on the question in the Protocol Committees, and felt no need to elaborate further on the matter in the Council at this time. The question of observance of obligations remained a fundamental one though, and pressures on his delegation remained strong. He consequently wanted to retain the
matter on the agenda for further consideration at a later stage. He thought that there had been some developments and that the members of the Council had got a clear understanding of the purpose and aim of the Australian proposal. He also felt that there was some scope for further bilateral discussions on the question, and that it would perhaps not be necessary to pursue the discussion on the basis of the original suggestion.

34. The Council took note of the comments made and also noted that the matter had been discussed in the Committee of the Protocol Regarding Milk Fat. It was agreed that the matter could be reverted to if and whenever required.

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

35. The Council had before it documentation prepared by the secretariat for the discussion of this item: a status report on the world market for dairy products (DPC/W/62 and Addendum 1), a note on food aid operations relating to dairy products (DPC/W/65), a statistical note on milk deliveries and production (DPC/W/53/Rev.2) and three summary tables which had already been examined by the Committees of the Protocols (DPC/P/W/32/Rev.2; DPC/F/W/22/Rev.2 and DPC/W/C/30/Rev.2). The Chairman suggested that the discussion be organized under five sub-headings: (i) dairy policy matters; (ii) total milk production; (iii) dairy products not covered by the Protocols; (iv) transactions other than normal commercial transactions; and (v) the situation and outlook in general. This was accepted by the Council. It was also noted that parts of DPC/W/62 and the statistical information had been considered in the Committees of the Protocols.

Dairy policy matters

36. The Chairman invited delegates to make comments on dairy policy matters, supply management policies, price policies and trade policies.

37. The representative of Australia reported that new marketing arrangements had recently been introduced at Commonwealth level. The arrangements had been developed over a considerable amount of time
following public inquiry and report by the Industrial Assistance Commission. Subsequently, a great deal of governmental consideration had taken place both within the Commonwealth, between the State governments and between the Commonwealth and the States and, with the industry. It had been a complicated and difficult process as in fact State governments had certain powers which were quite distinct from the Commonwealth. The Commonwealth powers were limited by and large to the Commonwealth's control of the purse. Ultimately, the arrangements that came out were a reflection of the Commonwealth view, that the arrangements were necessary for the dairy industry and should be applied for a number of years to see the industry develop in a particular way. The level of support would be phased down and ultimately the industry would be obliged to operate on the basis of world parity essentially taken as import parity from New Zealand plus a margin of about 30 per cent. The industry would have to become more efficient and more market orientated with a considerable degree of de-regulation involved. He noted that there was reference to the arrangements in the Status Report and his delegation was prepared to answer questions if required. Clearly, if the world market for dairy products were to fall apart then the Australian Dairy Industry would go down with it and that was something he did not want to see. There was a place and role for the International Dairy Arrangement tucked away into the Australian observance measures, and he was concerned to see the Arrangement viable and Australia was going to do her utmost to ensure that the Arrangement remained viable. He believed that something more could be achieved by a quiet process of consideration and discussion on the general question of observance measures and he would constantly endeavour to promote that.

38. The representative of Argentina reported that a price agreement reached between milk producers and the industry had, together with favourable climatic conditions, favoured milk production in 1985. The agreement initially valid for a twelve-month period, and later extended until the end of 1986, allowed dairy farmers a sufficiently long period for planning their investments and purchases of supplies. The creation of a dairy export promotion fund of a strictly private character was under discussion. The purpose of the fund would be to enable Argentina to place on the world market any surpluses not absorbed by the domestic market.
39. In Switzerland the base price of milk had been raised by 5 centimes to 95 centimes per kg. effective from 1 July 1986. Production quotas had been reduced recently and would be reduced further as from May 1987. Milk price to producers had also been increased in Norway from 1 July 1986 within the agreement reached between farmers and the government for the period July-June 1986/87. In Canada, the target price was raised by 1.4 per cent from 1 August 1986 in accordance with the returns adjustment formula, which was currently being reviewed. The aggregate quota for industrial milk had been kept unchanged, but it was possible that developments in domestic and international market conditions might require a reduction in the quota for 1986/87.

40. The representative of New Zealand thanked the secretariat for the Status Report. His delegation had a substantial interest in the document and regarded it of considerable value to have such a compilation produced. He felt that the document tended to be a little cautious as to comments on policy and thought there might be room for more comments of a factual nature on domestic and trade policy measures. He felt that the emphasis given at present to the supply/demand equilibria could be usefully balanced with more comments on individual domestic and trade policy measures and would accordingly like to see the document improved. As an example of a measure that was of considerable concern to a number of participants, he mentioned the introduction of the special Community refunds resulting in lower market prices. He thought that the report could well have noted that the introduction was a matter of serious concern to several participants instead of simply noting that the refunds were introduced to meet keen competition without identifying other points that had been raised. He also noted that there was no indication that the tendering system would replace the special refund system, and invited the Community to comment on that. The report clearly showed that despite milk quotas, Community production was again on the increase and skimmed milk powder and butter stocks had burgeoned again. He invited the Commission's assessment of whether the latest measures to tighten quotas would have the desired effect and whether buying into intervention had abated. There was no mention either in the report of whether the super levy had been or was to be collected. Furthermore, he was interested in any assessment that the Commission could give on the impact of the Community outgoer's scheme, referred to in paragraph 25 of DPC/W/62. He found that basically the information in regard to New Zealand was accurate but there were a couple of points which he would bring to the notice of the secretariat later.
41. The representative of Australia thought the Status Report was a very good document. It was a very informative document and traversed a tremendous amount of ground and was in that sense very useful in its own right. He would like to see even more analysis done by the secretariat. Although he knew there were limitations, he wanted to encourage the secretariat to do more analysis and his delegation would always try to support any attempts in that direction. He noticed that perchance there was an element of a defensive presentation of some of the aspects. As an example, he mentioned that somewhere in the document a reference to the situation in 1984/85 was made, describing it as a position where the minimum prices were suspended. That was right and yet formally it was not quite like that. There was a nuance there which was not quite captured by the report. He would like to encourage the secretariat to be more incisive, but having said that, he certainly did not want to detract anything from the value of the report which was very useful to Australia enabling it to see what was going on around in the world.

42. The Community representative had learned a lot in reading the report. It had been distributed under the responsibility of the secretariat and it was the secretariat's responsibility to choose the right tone and produce a report which was most likely to obtain a consensus. As to the special refund system he saw no need to recall all the reasons why it was decided to introduce that system but wanted to stress that there had been a rather worrying drop in Community exports. As to the suggestion that the report should have been more incisive, he recalled that it was difficult for the secretariat to strike the right balance. It was easy to go too far on polemical issues and he felt that in this particular instance the secretariat had shown a great deal of talent and he was very happy with the report as it was. In reply to the questions raised by New Zealand, he could merely repeat what had been said by his delegation in the past. The measures had been taken to meet competition at the world market prices which were applied by some of the competitors and he had no comment on that part of the report. Some policy making elements could be entered into the report, but this would depend very much on whether these measures had already been taken or were still merely suggestions or proposals. The tendering system which would replace the non-published special refunds had
in principle been adopted by the Council, but its application still had to be worked out and he was unable to indicate when it would come into operation. With regard to a Commission proposal to the Council of Ministers to change the intervention system for butter and skimmed milk powder in order to bring the system more into line with the initial objective of the intervention system which was to store production in the summer for marketing in the winter, he could only say that the outcome of the proposal was completely open. It would be premature to deal with this in the report. As to the system of the super levy, he said that the levy would be collected if a farmer exceeded his quota depending on the system applied. If the quota was exceeded there was a penalty to be paid. The Commission put pressure on member States to ensure that they apply the rules. Concerning the outgoers' scheme, he said that the application elements still had to be determined. Similar schemes had been applied already in member States. Aged farmers who had wanted to go out might already have taken advantage of the national systems. To what extent the Community scheme would be successful would depend on the attractiveness of the payments, the impact on other people who want to go out and whether outgoers would take advantage of the Community regulation or of national rules. There was a possibility for the national authorities to compensate some outgoers under national schemes. He admitted that this might sound complicated, the Commissions' intentions were initially to ensure a reduction in the total quota. However, national authorities had the possibility to reallocate quotas to newcomers. The scheme would be implemented on a voluntary basis and if it did not work, the Commission would have to take other measures to reduce the quota. Anyhow, the impact could only be assessed at a later stage in a year or two. The New Zealand representative thanked the Community representative for the replies to his questions.

Total milk production

43. The Chairman invited delegations to enlighten the Council on the current situation with respect to total milk and dairy production and also to provide forecasts for the whole year of 1986 or 1986/87. It was noted
that some information on the matter had already been given in the Committee of the Protocol Regarding Milk Fat.

44. In Switzerland, milk deliveries were for 1986 of the same order as in the previous year, with figures for the first eight months of the year showing an increase of 0.4 per cent. In Finland, milk deliveries had been 1.6 per cent less in the first half of 1986 than in the corresponding period of 1985, and were for the year 1986 expected to show a decline of about 1 per cent. A similar decline was expected also in 1987. Also, for Norway a decline in production of 2 per cent was reported for the first half of 1986. For 1986 as a whole, deliveries were expected to be 1 to 2 per cent lower than in 1985, mainly due to the implementation of production quotas. In Sweden, milk deliveries for the first eight months of 1986 were 4.7 per cent lower than they had been in the corresponding period of 1985 and were for 1986 as a whole, expected to show a decline of 5 per cent amounting to 3.4 million tons.

45. In the European Communities there had been a reduction in dairy cow numbers of 1.5 million or 5.8 per cent from 1985 to 1986, and a further reduction of 1 million head was expected for the current year. While total milk production showed only little change from 1985 to 1986, milk deliveries had increased in 1986 and the total production quota might be slightly exceeded.

46. 1986 had been a very bad year for the Polish dairy industry, with a drastic fall in milk production, which did not cover domestic needs. In South Africa, total milk production fell by 3 per cent from 1985 to 1986, with a 2 per cent decline for fresh milk products and a 10 per cent decline for industrial milk and the outlook was a further decline in 1986/87. In Japan, effective production control had resulted in a slowing down of the growth in milk production. There was a decrease of 0.5 per cent in liquid milk consumption, while 9 per cent more milk was used for processing.

47. An unfavourable autumn had resulted in low milk production in Australia, with production in the second quarter of 1986 being 5.3 per cent lower than in the corresponding period of 1985. However, total milk production for 1985/86 had reached the level of 1984/85. A reduced number
of cows, only partly offset by increased yields was expected to result in a reduced production in 1986/87, amounting to around 6 million tons. In New Zealand, favourable climatic conditions resulted in an increase in milk production in 1985/86 of more than 5 per cent. Although pasture conditions had not so far been favourable in the 1986/87 production year, an increase of 2 per cent in cow numbers and further improvements in yields were expected to result in a total production of a level of 355 million kgs. of butterfat, or an increase of one and a half per cent.

Dairy products not covered by the Protocols

48. The Chairman invited comments on the two chapters of the Status Report covering dairy products not covered by the Protocols and mentioned that the secretariat would appreciate guidance as how to adapt the chapters more closely to the need for such information and otherwise complete or improve the chapters, notably with respect to information on concentrated milk and casein. The secretariat had also circulated a note on United States imports of casein (DPC/W/61).

49. The Community representative said that although casein was not covered by any Protocol to the Arrangement, it was a product that deserved the interest of the Council. He had the information that important groups in the United States wanted to limit imports of casein. He did not quite share the optimistic views held by other participants and would be grateful for further clarification as to the situation in the market, notably with respect to prices.

50. The New Zealand representative said he would be glad to forward additional information on the casein trade to the secretariat. He found document DPC/W/61 to provide a good summary of a bad report which New Zealand had had some difficulties with and had consequently presented a note on it to the United States. As to the factual information given in DPC/W/62, he suspected that some figures included casein, caseinates and casein derivatives, and as the latter was not included in the New Zealand Dairy Board figures, this might have resulted in some statistical divergencies. New Zealand casein production had increased by 17 per cent from 1984/85 to 1985/86, in the latter year reaching 75.4 thousand tons.
Exports had reached 71,262 tons in 1985/86 compared to 70,801 tons in the previous year. The United States had remained the main market followed by Japan. Prices expressed in United States dollars had remained stable during the first nine months of 1986.

51. The representative of Australia reported that Australian casein production had increased by 8 per cent from 1984/85 to 1985/86 then amounting to 8,680 tons. The increase was primarily due to a diverting of solid non-fat from skimmed milk powder to casein, reflecting a world over supply of the former. For 1986/87, casein production was expected to be reduced to 8,000 tons. Exports reached 7,129 tons in 1985/86, down by 16 per cent from the previous year and export availabilities in 1986/87 were expected to be around 7,500 tons. Although he felt that international trade in casein was relatively steady, he expressed some concern about the situation in the United States market. He shared the concern expressed by others about the deficiencies of the report by the USDA. United States imports had expanded by 20 per cent in 1985, and the level of 105,000 tons was expected to be reached in 1986 as well. He estimated world casein production in 1986 to be just over 230,000 tons. He saw weakening tendencies in international prices, with United States import prices actually being in a range of US$1,860 to US$1,920 per ton on a delivered basis.

Transactions other than normal commercial transactions

52. The Chairman invited members of the Council to comment on document DPC/W/65 which the secretariat had prepared on the basis of information on food aid available to it. He recalled that Article V of the Arrangement was unique in that similar provisions were not found in other commodity agreements. 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 in the Council on these matters. So far, only Australia and the European Communities had notified details on their plans for providing dairy products as food aid in 1986 (documents DPC/W/55 and 59).
The situation and outlook in general

53. The Chairman suggested, in winding up its discussion on this item, that the Council should keep in mind the provisions of Article IV of the Arrangement. It would therefore seem appropriate to make an evaluation or assessment of the world market situation and outlook for dairy products in general or for one or more products. He invited comments on the summary chapter called "Resume of the situation" in document DPC/W/62 and also invited any further general comments on the document as a whole. He drew the attention of delegates to paragraph 4 of the Explanatory Notes which suggested that they submit suggestions for changes to the secretariat in writing, for instance in the form of an annotated copy of DPC/W/62 and Addendum.1.

54. The representative of New Zealand expressed his appreciation for a detailed and comprehensive report and thanked the Chairman of the Committees for his contribution. He approved of document DPC/W/62 and the analysis therein confirming that the market situation was a depressed one, and that the market was over-supplied, although the markets for powders and cheese had firmed or stabilized recently. The situation in the near future would depend on a number of factors, not least the effectiveness of the Community quota system. A continued growth in United States production could reduce substantially the effects of efforts made in other countries to limit production. There was also a continued substantial growth in the production in countries such as the USSR, India and China, and this would have to be kept in mind when forecasting developments in the future. The report rightly highlighted the urgent need for determined and co-ordinated efforts to dispose of surplus stocks and prevent their re-occurrence. He reconfirmed New Zealand's determination to make continued efforts to find ways to assist other participants in solving their problems. He wanted to conclude on an optimistic note, expressing the conviction that the recent launch of the Uruguay Round would bring about a more positive attitude towards the need for the liberalization of dairy trade among participants.

55. The representative of Australia expressed the fear that the current difficulties might persist for another year or so, largely because the continued imbalance between supply and demand was not likely to disappear
quickly, nor could the situation be corrected easily. In his view, the key
to the solution of the problems would be found in the areas of production
disincentives and production control to be implemented by major producing
countries. He felt that there should be greater reliance on the market
mechanism than had perhaps been the case in recent years, but stressed that
this should not necessarily mean that things were entirely dictated and
determined by the market or the market place. He expressed his concern
about the growing rate of self-sufficiency in a number of major importing
countries such as the USSR, and some smaller markets that together
constituted significant market outlets at present, such as developing
countries in Asia. He warned the Council against the sentiments of
protectionism that could ultimately become more extensively associated with
attempts to improve self-sufficiency in dairy products and he shared
similar concerns expressed by other participants. He felt that the
launching of the Uruguay Round indeed provided some hope for liberalizing
dairy trade and more than just marginally. He was also confident that the
Round would provide scope for improving the International Dairy
Arrangement, which he would like to see improved and strengthened in as
many ways as possible. He believed it might be possible to go beyond
simple minimum export price provisions, although he had no elaborate,
concrete proposals in mind yet. His delegation was thinking about the
matter and intended to come forward with some suggestions when the time
would be right for that.

56. The Community representative referred to the frequent attacks on the
Community for the large surplus stocks held. One explanation for the
situation was that the Community in a way was the dairy stockholder of the
world. Community dairy exports had been falling as other exporters
unloaded their surpluses on the world market. However, the Community was
continuously making efforts to reduce its surpluses. The Community remained
devoted to international cooperation and was strongly attached to the
International Dairy Arrangement, something the recent initiative to raise
minimum export prices could witness of. He regretted that Austria and the
United States had left the Arrangement and that Canada remained outside,
and would support any efforts to bring these countries into the
Arrangement, for instance in connection with the Uruguay Round. He agreed
that the market situation was a difficult one, but the reasons for it were
not to be found only on the production side. A number of importing countries did not have the financial means to maintain imports at past levels, and he saw that as a main reason for the decline in world dairy trade. Total world milk production continued to increase, while a decline might have been desirable. The efforts undertaken by many countries to limit production were outweighed by further expansion in other countries. The Community had taken important steps to curb milk production, although the aims had not been achieved yet. The efforts would however be continued and expanded, and he hoped other countries would follow the example. If the growth in milk production was not brought under control, the situation would be a disastrous one for all participants in the Arrangement. Extremely low world market prices would prevent many importing countries from improving their domestic production and increase the pressure for protectionist measures to be applied at the frontier. In his mind it was necessary to reflect on the impact of the situation and on future policies aiming at countering adverse effects of the present market situation.

57. The Council noted that total world milk production had continued to expand, in spite of various measures implemented to limit milk deliveries in many countries. Milk supplies would again be excessive in 1986, and surplus stocks of some dairy products would continue to increase and continue to have a depressive effect on the market, notably in the case of milk fat. The Council expressed its concern at 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. It noted that the Committee of the Protocol Regarding Milk Fat had considered possible steps to be taken to resolve the problems facing butter trade, in accordance with the request of the Council and that informal discussions were being held among major participants with the aim of developing mutually acceptable solutions to the problems in the butter market.

58. The Council took note of the status report on the world market for dairy products (DPC/W/62 and Addendum 1), a note on food aid operations (DPC/W/65) and relevant statistical information provided in replies to questionnaires. The Council also noted the comments made under this item of the agenda, and agreed that the status report as completed, up-dated and amended should be released for general distribution as the seventh annual report under the International Dairy Arrangement.
D. Report to the CONTRACTING PARTIES

59. 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 1985. 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 1985 session of the CONTRACTING PARTIES.

60. It was so agreed.

E. Tentative schedule of further meetings

61. In accordance with Rules 3 and 16 of its Rules of Procedure, the Council adopted the following tentative schedule of regular meetings in 1986 and 1987. 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:

1986

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

1987

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

19-20 March International Dairy Products Council

15-16 June Committee of the Protocol Regarding Milk Fat
                   Committee of the Protocol Regarding Certain Cheeses
                   Committee of the Protocol Regarding Certain Milk Powders
21-22 September  
Committee of the Protocol Regarding Certain Milk Powders 
Committee of the Protocol Regarding Milk Fat 
Committee of the Protocol Regarding Certain Cheeses 

24-25 September  
International Dairy Products Council 

14-15 December  
Committee of the Protocol Regarding Certain Cheeses 
Committee of the Protocol Regarding Certain Milk Powders 
Committee of the Protocol Regarding Milk Fat 

F. Note by the Chairman on the present meeting 

62. The Chairman recalled that according to the Decision of 28 November 1979, the CONTRACTING PARTIES should receive adequate information on developments relating to the operation of the Arrangement (BISD 26S/201). He accordingly suggested the submission of the following Note by the Chairman:

1. The International Dairy Products Council held its fifteenth session on 30 September and 1 October 1986.


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

4. While the market for some dairy products had shown appreciable improvement throughout the second half of 1985 and the first half of 1986, the market for butter and anhydrous milk fat continued to be adversely influenced by the presence of abundant supplies and burdensome stocks. During the first three quarters of 1986, butter prices had been at, or just slightly above, the agreed minimum export price of US$1,000 per ton f.o.b. and the situation continued to be one of serious concern.
5. The Council expressed its concern at 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. It noted that the Committee of the Protocol Regarding Milk Fat had considered possible steps to be taken to resolve the problems facing butter trade, in accordance with the request of the Council and that informal discussions were being held among major participants with the aim of developing mutually acceptable solutions to the problems in the butter market.

6. Prices for Cheddar cheese which were under some pressure from heavy supplies in the middle of the year had recovered somewhat during the third quarter. Prices for milk powders strengthened and remained well above the minimum price. During the annual review of the minimum export prices, it was decided to raise the minimum prices for cheese and powders effective 2 October 1986. The new minimum export prices were, for certain cheeses US$1,030 per ton f.o.b., for whole milk powder US$880 per ton f.o.b. and for skimmed milk powder and butter milk powder US$680 per ton f.o.b.

7. The Council noted that total world milk production had continued to expand, in spite of various measures implemented to limit milk deliveries in many countries. Milk supplies would again be excessive in 1986, and surplus stocks of some dairy products would continue to increase and continue to have a depressive effect on the market, notably in the case of milk fat.

8. 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 was due for a complete updating and revision, and participants who had not yet done so were urged to take the necessary steps as a matter of urgency to ensure that the relevant information would be submitted to the secretariat.
9. 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/62 and Addendum 1), a note on food-aid operations (DPC/W/65) and relevant statistical information. The Council took note of the documents and the comments made, and agreed that the status report as completed, up-dated and amended should be released for general distribution as the seventh annual report of the International Dairy Arrangement.

10. Hope and confidence was expressed in the Council that the launching of the Uruguay Round would halt and reverse protectionism in the dairy sector, favour developments of positive attitudes for the liberalization of dairy trade and provide scope for improving the International Dairy Arrangement and for a wider participation in it.

11. The Council authorized the Chairman to submit to the CONTRACTING PARTIES a report on the work done since November 1985 in pursuance of the objectives of the International Dairy Arrangement. It was understood that the Chairman would do so on his own responsibility.

12. The Council adopted a tentative time schedule for regular meetings up to the end of 1987. 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.

63. This was agreed by the Council, and the note was circulated in document L/6051 dated 1 October 1986.

64. The fifteenth session of the International Dairy Products Council was then closed.